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The opinions expressed by the authors of articles appearing in this magazine are their own, and frequently are intended to stimulate further discussion on the subject. Publication of any material does not necessarily mean that the Society, its Board of Directors, or editors approve or agree with the opinions expressed by the authors. Readers are invited to submit their own comments or articles.

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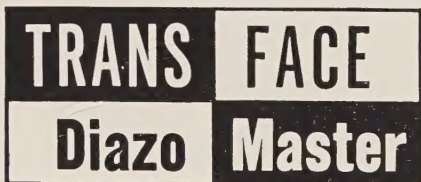
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LEO V. TINKHAM

At the beginning of each fiscal year of the Society, the Board of Directors reviews prior year activities and sets a program for the future. We have appointed 531 members to serve on committees and have developed an operating manual as a guide to the committees. Convinced that the Society's activities will be dispersed to the point of ineffectiveness in any attempt to solve



all of the profession's problems simultaneously, the Board has decided that efforts each year must be concentrated on the most critical problems. Activity programs emphasize those matters which appear to be of most pressing concern to the profession.

This year, in order to determine the areas of special emphasis, I asked each member of the Board to list what he considered to be the five most serious problems facing the profession and the five most serious problems facing his firm. The lists submitted included items which could be classified into about twenty broad categories, but some items were repeated so frequently that the major problems became fairly apparent.

Recruitment and retention of capable people was listed far more often than any other item. Closely following were training and elimination of substandard practices. The relationship between costs and fees, included in a number of the lists as a separate problem, bears heavily upon recruitment and retention of personnel. The survey of Board members indicated a conviction that legislative problems were next in importance. Other matters men-

President's MESSAGE

tioned with less frequency involved public relations activities, uniform accounting principles, administration of practices and several other subjects with which the Society is continuously concerned.

The listings of problems by Board members furnished one basis for selection of areas of emphasis for the current year. Other considerations also entered into the choice. Training, recruitment and retention of personnel contribute to high-quality performance which is the best single means by which the profession can enhance its position in the business community. Recognizing that principle and guided by the listings of problems, the Board decided that the Society's efforts should be directed toward improvement programs of training, recruitment and retention of personnel.

Another matter seemed of prime importance. During the last Illinois state legislative session, we devoted substantial effort to the defeat of proposed legislation which would have been detrimental to the public interest in that it would have lowered standards of qualification for performance of professional accounting services. We must continuously be alert to that problem and must give attention to it every year, whether or not the State Legislature is in session. To that end our program for the year also emphasizes that activity.

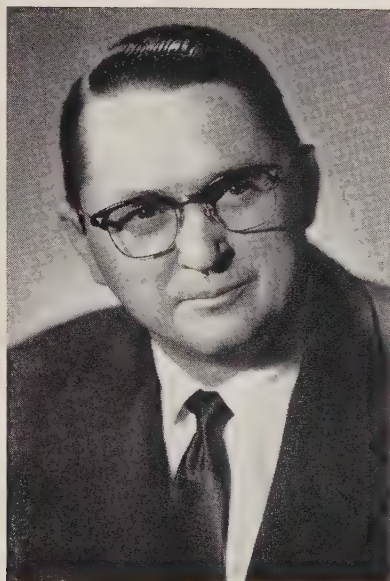
The Society's operation plan for the year outlines our major emphases as follows:

- “(1) Improvement of adherence to the profession's standards of performance so that the public will accept membership in the profession as significant evidence of high quality service in any area in which a member offers service.
- “(2) Recruitment and retention of capable, qualified people in the profession to the end that we may be able to render continuously improving and expanding services.
- “(3) Promotion of legislation affecting the practice of public accounting which will protect the interests of the profession and the public which it serves.”

Emphasis on certain activities does not imply neglect of other objectives of the Society. Programs which have been in progress during past years will be continued and expanded. We merely propose to pursue the designated problems with special vigor.

I am not sure that members of the Board of Directors are acquainted with all of the problems of the profession or can accurately determine the most important problems. We have nearly 3,500 members and a proper appraisal involves getting opinions from every member. As the year progresses, I am going to ask every member to give me his opinion of how the Society can best serve the profession. I hope that the responses will be based upon some direct contact every member establishes with the Society during the year either by attendance at meetings, service on a committee or discussion of activities in which he is interested with appropriate committee members. We are trying to direct our activities to best serve the needs of our members and will redirect our efforts as those needs become clear to us.

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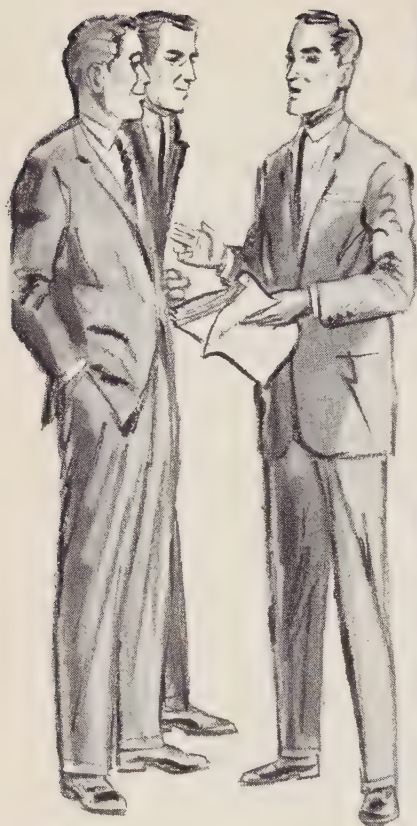
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A Plea for a New State Revenue Article with Flexibility to Meet Changing Conditions

Welcoming Address at ISCPA Annual Meeting

by Hon. Otto Kerner

I am happy to welcome members of the Illinois Society of Certified Public Accountants to Springfield for your annual meeting. I'm certain you will find many activities to interest you during your stay with us.

A short while ago I was leafing through the agenda for your annual meeting. With your very busy schedule I doubt if many of you will have the opportunity to visit some of our points of interest. I must say I was impressed by the varied and wide range of topics you have scheduled to discuss during your convention.

I note that tomorrow afternoon, for example, you will investigate automation and discuss its suitability for small business. I am happy to see our awareness; for, ready or not, the second industrial revolution is upon us. It is one already beyond the centuries-long search for ways to replace human with mechanical or other forms of energy that characterized the first industrial revolution.

These giant strides forward are most welcome. But while science goes

about its task providing electronic brains, inventing computers to eliminate irksome tasks of punch card operations or filing and freeing people from these forms of drudgery, it is also creating human problems.

We find ourselves faced with problems of what to do with people freed from procedures they have mastered through long trial; people whose livelihoods have been rendered obsolete in one tremendous forward thrust of technology.

It is not the responsibility of science to tell us what to do with this mass of people—an ever growing throng each year—that stands aside to watch a machine take over their outmoded tasks. Undeniably, this is progress. But it is also displacement; and it is a problem, one not only to live with, but also to find some means of solving.

The solution is not easy but the problem can and has been solved. In your responsibility of counseling small businessmen I am certain you know the answer does not lie in em-

playing a master plan or an inflexible problem solving scheme.

Each office and business offers a different challenge because of its needs and because its function involves people.

Therefore in counseling small businesses to meet the winds of change we should harken to the advice of Aesop.

When the mighty oak was felled in a violent wind storm, it tumbled earthward and came to rest near a growth of reeds at the side of a marshy swamp. The oak asked how it, a tower of strength, could fall victim to the wind while the reeds, fragile shafts that they were, could withstand the gale.

They answered: We have learned to bend a little and survive.

I might also say that in state government we face a situation where the winds of change are felt. As you know we are laboring under the burden of an antiquated revenue article, one designed for the needs of an agrarian population of two and one-half million persons in 1870. Like the oak this revenue article is unable to bend a little and provide for the needs of more than 10 million people in 1961 when only about 855,000 still live on farms.

With more than 50 percent of our combined state-local tax revenue com-

ing from property taxes designed to reflect wealth consisting of farmlands, crops and livestock you can see the obvious inequity that exists.

We have taken a page from your book and from seminars such as those you will conduct during your annual meeting and have appointed a Revenue Commission of outstanding citizens from all branches of modern society to create a new fiscal structure for our state.

They will be meeting in coming weeks and I have asked them to complete their study and report to me no later than January 15, 1962. Their recommendations will provide our legislature with the necessary working tools to provide a new revenue article to place Illinois' fiscal organization in the 20th century.

Thus we realize as do you that to be inflexible, for us, is to break under the burden of a dry, lifeless revenue article. It is our goal to face the winds of change and exercise a suppleness of human skill to meet the new problems of the times.

I am certain you will bring just this same application to the many varied projects you have scheduled to discuss during your annual meeting. It is by the interchange of ideas through professional societies such as yours that we achieve much of our progress and growth.

THE HONORABLE OTTO KERNER, Governor of the State of Illinois, delivered the welcoming address at the annual meeting of the ISCPA in Springfield in May. These remarks are adapted from his address.

What Is Fraud? Who Commits It?
Who Is Its Victim?

The Statistics of Fraud

By Donald Zaretsky

During the time it takes you to read this article, approximately \$30,000.00 will have been stolen by "trusted employees" from their unsuspecting employers. Obviously this is a matter of substantial concern to the business community—and to its advisers. The purpose of these comments is to give the reader a general background on the subject of business fraud. This problem can be best discussed under three categories, namely:

1. What is fraud?
2. Who commits it?
3. Who is its victim?

What is Fraud?

The term "fraud," as used by accountants, is loosely defined. It is not the same as fraud in the legal sense (which is essentially synonymous with deception), though it may certainly include misstatements of material facts, intent to deceive, and other elements of the legal definition of fraud. Actually, "fraud" in the context of an accountant's language

is synonymous with "white-collar crime" (a term popularized in the title of *The Thief in the White Collar* by Norman Jaspan and Hillel Black).

Thus, fraud can include such varied offenses as embezzlement, forgery, pilfering, faked burglaries, bribes, and kick-backs. It is distinguished from larceny in that the perpetrator usually has every right to be handling what he steals. The magnitude of the offence can vary from the deliberate soiling of a seven-dollar blouse, so it can be purchased as "shopworn" for three dollars, to the abstraction of a million dollars in bank depositors' funds. Both are "fraud." The real difference is only one of degree.

Business fraud is not a minor problem, present in a few isolated instances and of academic interest only. In 1960, such crimes resulted in estimated losses of over four million dollars a day, or well in excess of *one billion dollars* for the year. By contrast, the F.B.I. estimated that all the nation's burglars, pickpockets, hold-up men and auto thieves, working diligently throughout the year 1957, accounted for a comparatively trifling \$479 million. The foregoing figures, astounding as they are, take no cognizance of the cash, TV sets, fruit baskets, etc. which change hands as bribes and kick-backs—an estimated *five billion dollars* in 1960.

EDITOR'S NOTE: This article and the three that follow it comprise a series of papers on the general topic, "After Fraud is Discovered." The articles are based upon papers presented at the Society's technical session on this subject in the Fall of 1960. The overall coordination of these articles, as well as the original impetus for their publication as a unit, was handled by MANDEL GOMBERG, a partner in the firm of Altschuler, Melvoin, & Glasser, Chicago.

Having briefly surveyed the nature and severity of the problem posed by fraud in business, we are inevitably confronted with the question of:

Who Commits It?

Probably the most widely-quoted source of information on white-collar thieves is the booklet *Embezzlers Post War*, published by United States Fidelity and Guaranty Co. in 1950. This is a study of the thieves (845 men and 156 women) involved in 1,001 embezzlements which resulted in losses insured by that company in 1947, 1948 and 1949. The picture it paints of the average embezzler is not an encouraging one for the practitioner who would like to be able to spot a would-be thief on his first visit to the client's office.

To begin with, the typical embezzler is friendly, above average in intelligence, hard-working and *not* an habitual criminal. If a man, he is about 35, married, has one or two children, owns his own home in a respectable neighborhood, drives a low or medium-priced car and has an annual salary in the upper 40% of the nation. He has been employed in his present position for about three years and has been stealing for eight months. In that period, he has "earned" an additional fifteen months' salary.

The average female embezzler is about 31, has earnings in the bottom third of the national average, has been employed in her present position for about 2½ years and has managed to get away with an amount equal to her annual salary within the last 6½ months.

The study showed that the number of women who embezzled had increased since a similar investigation in 1935. This was coincident with

women coming into the business world in ever-increasing numbers and reaching positions of greater responsibility during the intervening period. The implication seems to be that, given the opportunity, women are no more honest than men.

In fairness to the ladies, however, it should be noted that they generally stole for less selfish reasons (husbands unemployed, family illness) than did the men (gambling, drinking, high-living), as shown by the tabulation of the motives on the following page.

Based on these descriptions, it is obvious that there is nothing overtly unusual about a potential or actual embezzler. The tabulations on page 6 indicate the ages, lengths of service, and occupations of the embezzlers who were the subject of the study.

Even the most superficial glance at these exhibits will quickly show the wide distribution, by age and length of service, of actual white-collar thieves. Certainly, the accountant can see nothing which might alert his suspicions in any specific case. John Q. Embezzler looks, acts, and when you get right down to essentials, is no different from John Q. Public. These statistics illustrate the point that the greater the temptation and opportunity, the higher will be the incidence of fraud. This is shown by the fact that the most frequent offenders are salesmen and branch managers, who commonly have relative freedom of access to cash and other property, and are not closely supervised.

Before leaving our review of the person who appropriates his employer's assets, it should be noted that he (or she) can inflict immeasurably greater damage as his responsibility and authority increases. A five-year

TABLE 1

	Number		Per Cent	
	Men	Women	Men	Women
Living Above Means, Extravagance,				
Irresponsibility	256	47	30.30%	30.14%
Gambling, Drink and Drug Addiction.....	195	9	23.08	5.77
Outside Business	17	2	2.00	1.28
Grudge Against Employer	23	3	2.72	1.92
To Start Elsewhere	6	8	.71	5.13
Finance Political Candidacy	2		.24	
Family Expenses, Illness	44	32	5.21	20.52
Spouse's Extravagance or Unemployment	33	4	3.90	2.56
Bad Associates, Duped, Helped Friends	26	5	3.08	3.21
Pregnancy:		4		2.56
Influenced by:				
Men	56		6.63	
Women		14		8.97
Got Women "In Trouble"	3		.35	
Poor Manager, Accumulation of Debts	49		5.80	
Criminal Character	114	16	13.49	10.26
Mental Cases	2	4	.24	2.56
To Finance Marriage	6	4	.71	2.56
Replace Lost Money	2		.24	
Pay for Auto Accident	1		.12	
Pay Alimony	1		.12	
Mother-in-law	1		.12	
Juvenile Delinquents	3	1	.35	.64
Aftermath of War	5		.59	
Other Reasons		3		1.92
	845	156	100.00%	100.00%

study of 2,651 claims by Liberty Mutual Insurance Company showed that 1,289 thefts by salespeople, or 49% of the total number of claims, accounted for about 20% of the total dollar loss. Conversely, only about 10% of the thefts—by 9 treasurers, 1 corporation secretary, 3 presidents and 276 department and branch managers—produced approximately 40% of the total loss.

It should be evident by now that the embezzler is rarely the furtive, harassed clerk or cashier of the TV writer's imagination. When his speculations are brought to light, he may

be, and often is, a formidable individual for the uninformed practitioner to deal with.

Having in mind the background of the general nature of the problem and its perpetrators, our primary concern with fraud—as auditors and advisers to business—rests naturally on the question of:

Who Is Its Victim?

The brunt of the harm done by fraud is borne, in a larger sense, by society generally. The figures previously referred to, astronomical as they are, do not begin to measure the

DONALD ZARETSKY is a senior accountant in the firm of Altschuler, Melvoin, & Glasser, Chicago.

TABLE 2

	Men		Women	
	No.	%	No.	%
Age Distribution:				
Under 25	96	11%	46	29%
25-29	190	23	39	25
30-34	139	16	22	14
35-39	144	17	16	10
40-44	118	14	16	10
45-49	72	9	7	5
50-54	40	5	4	3
55 and Over	46	5	6	4
	845	100%	156	100%
Length of Service:				
Less than 1 Yr.	321	38%	57	37%
1-2 Yrs.	125	15	26	17
2-3 Yrs.	142	17	23	15
3-4 Yrs.	72	9	21	14
4-5 Yrs.	34	4	10	7
5-6 Yrs.	29	3	6	4
6-7 Yrs.	21	2	3	2
7-8 Yrs.	19	2	1	0
8-9 Yrs.	9	1	1	0
9-10 Yrs.	6	1	1	0
Over 10 Yrs.	67	8	7	4
	845	100%	156	100%
Occupation:				
Clerical (Accountants, Bookkeepers, Clerks, Secretaries)	138	16%	72	46%
Supervisory (Managers, Dept. Heads)	253	30	35	22
Sales and Service Personnel, Buyers	260	31	38	24
Government and Military Personnel	37	4	7	5
Union Officials	50	6		
Other	107	13	4	3
	845	100%	156	100%

total cost to the nation in higher prices, reduced tax revenues, lost human resources, and deteriorated moral standards. Nor is there any way in which these losses can be measured, in dollars.

In the narrower sphere of the business world, while no absolute measure of the cost of fraud is available, information has been gleaned from various sources which indicates the severity of its effect on American business enterprises:

1. In 1960, approximately 200 companies were forced into bankruptcy by internal theft.
2. In the last twenty years, over 100 banks had to close because of embezzlements and at least one in every five banks has suffered an embezzlement within the last five years.
3. In the ten years from 1946 to 1956 while dishonesty insurance coverage increased by 70%, losses increased by 250%. Presently, due in large part to insufficient coverage, only about 3% of employee dishonesty losses are eventually recovered. This might be largely

attributed to the common practice of bonding every employee who handles a \$200.00 petty cash fund and ignoring the man who is in charge of thousands of dollars' worth of materials or merchandise.) This problem can be further highlighted by reference to the results of a recent survey of 20,000 businessmen by Surety Association of America.

<i>Line</i>	<i>Protected by Fidelity Bond</i>	<i>Bond Protected</i>
Hardware	6%	94%
Contractors	8	92
Appliance Stores	7	93
Groceries	3	97
Restaurants	4	96
Clothing	5	95
Drug Stores	7	93

If you keep in mind the fact that many of the companies which do have coverage are large establishments with relatively good control, it is apparent that many losses are being sustained by the very people who can least afford them and have the least hope of recovering them.

The effects of fraud's assault on business are further aggravated by the absence of real deterrents to embezzlers. Only about one of ten embezzlers is eventually prosecuted (possibly this is related to the fact that only 10 to 15 percent of U. S. manufacturers, retailers and wholesalers bond *any* of their employees),

and a discouragingly large number of these receive comparatively light sentences. To the person contemplating a theft, the possible penalty often does not serve as a restraining influence.

Of course, the victim himself must often bear a portion of the blame. The man, who for ten years has paid his bookkeeper \$75.00 per week for filing fraudulent sales tax returns and bribing building inspectors, is very apt to protest the loudest when Mr. Bookkeeper decides his son's dental bills are an equally worthy cause for which to steal.

Notwithstanding the share of the responsibility which they must bear, many businessmen—our clients—will suffer losses from dishonest employees. These losses will be inflicted without particular regard to type of industry, size of company or geographical location. As their advisers, it is incumbent upon CPAs to see that they have been alerted to all possible measures that can be taken to prevent fraud. After fraud occurs—as it will, in many instances, despite all precautions—it is essential that CPAs be sufficiently well informed so that they can provide sure-footed guidance through the many pitfalls present in the aftermath of fraud's discovery.

What Avenues Should the Auditor Pursue if He Discovers the Existence of Fraud?

What Happens After Fraud Is Uncovered?

By Bert B. Weinstein

Through perseverance, diligence and due application of generally accepted auditing procedures, and maybe a good deal of luck, the auditor has run across peculiar transactions which lead him to believe that something might be "rotten in the State of Denmark." What is to be done about it?

One possible approach would be to run in to the president of the client company waving a ledger in each hand and declaim in a voice loud enough to be heard in the next county, let alone the entire office force, "Your bookkeeper is a crook." This approach has certain defects in that (1) the ledgers were really O.K.—the auditor merely made an error in arithmetic; (2) the president is the crook, not the bookkeeper, or (3) the bookkeeper, overhearing the auditor's candid comments, leaps through the window, taking with him all supporting proofs, to say nothing of the petty cash box.

A More Sensible Approach

A more seasoned approach would stress the role of the public accountant as a fact-finder, one who ascertains what has happened, rather than one who acts as a zealous prosecuting attorney. To avoid embarrassment, the accountant must check and recheck any apparent irregularities to be sure that they represent an embezzlement, defalcation or speculation, rather than a justified business practice which may be peculiar to the industry or to that client. For example, a client may use a short-cut bookkeeping procedure to record branch office transactions on the books of the main office. At first blush to the junior making the cash examination, this and certain other odd short cuts looked like a cash kiting operation, or at best a holding open of the books to reflect income transactions of future periods. Actually, under the short-cut methods employed by this client, branch transactions were recorded on

the main office books only when cash remittances were received from the branches. Therefore, it was necessary to hold the books open after the close of each period in order to reflect the properly allocable income transactions within the appropriate period.

Secondly, if the suspicions of the auditor are aroused, he should extend the scope of his work sufficiently to prove or disprove the validity of his suspicions. Generally, if there are irregularities, further check may disclose a consistent pattern of such irregularities and probably others.

But, let us assume that the examining certified public accountant has incontrovertible proof of the existence of fraud. He must face up to an immediate decision as to what, to whom and how to report his discovery to the management of the client. If the initial findings indicate particular company officials who might have perpetrated the fraud, it would certainly be unwise to go to them and thereby tip them off.

In one case known to the author, payments were being made on false invoices. The auditor was unable to match receiving reports with the invoices in question and directed his inquiry to the executive vice president of the client. This executive assured the auditor that he knew all about the particular invoices, that they were proper, and instructed the auditor not to waste his time (and the client's money) on such trivialities. Therefore, naturally enough, the trusting auditor went on to more important matters. As subsequent events disclosed, the reason the vice president knew all about these particular invoices was that he himself had prepared them for nonexistent companies. This fraud, when finally uncovered, exceeded \$100,000 and the

auditor lost his client. If there is any possibility that top management may be involved, consideration should be given to reporting your findings to nonmanagement directors.

What to report should be easy for the C.P.A. to determine if he remembers his role as a collector of facts and that he is *not* a prosecutor. The plain, unvarnished facts are what should be reported to the client. Great care should be used to avoid accusations and drawing conclusions from the facts as you present them. Above all, the auditor must not allow his imagination to run wild.

After the auditor has determined to whom and what to report to his client, just *how* does he do it? Certainly, in the initial stages, the best method would be the questioning approach: "I have run across something which I don't understand. Possibly you could explain this transaction to me." Generally, in the initial stages of your findings, oral advices are preferable to written advices. However, if strict adherence is made to a statement of ascertained facts, there should be no reason to fear written advices to the client. For example, in a recent letter to a client involving internal control deficiencies, a statement was made to the effect that there was a substantial decrease in freight expense during the current year, coupled with an increase in purchases. Obviously, on the surface an increase in purchases, assuming the same suppliers and type of business, should result in an increase in freight expense. This statement alerted the client to check into the preceding year to ascertain whether all of the freight payments that year were proper. If an employee of the client is to be confronted with evidence gathered by the auditor, it should always be done

by the employer, not the auditor, and preferably in the presence of the client's attorney, or, as a minimum, under his guidance and direction.

In this connection, it is important to avoid forewarning suspected employees in the initial stages, at least until management can make plans to take over records handled by the suspected employee. These very records may be needed to prove the extent of the loss to the client.

Advice to Management

The best advice an auditor can give to management on what action to take is to contact, first, their attorney, and second, the bonding company. Thirdly, corrective measures should be recommended to prevent further losses, particularly if there are several parallel positions. For an example, a method of cheating a client was discovered involving a salesman-driver (one of 40 similar employees). Since this method of defalcation may have been known to others in this group of employees, it is important to plug the weaknesses and deficiencies in internal control which made the defalcation possible. At this stage of the proceedings, there should be an understanding reached with the client, and probably his attorney and the bonding company, as to the extent of the auditor's continued examination, bearing in mind available limits of insurance or other assets from which recoveries may be made.

The foregoing suggestions which have been enunciated can be illustrated by the case of an embezzler whom we shall call "Poker-Playing Pete," because alleged poker winnings were the ascribed source of his

affluence. In the interests of brevity, we will not go into the background of what aroused the suspicions of the auditor, and the background of the employee and employer. Suffice it to say that the employer bragged about his short-cut methods, and ignored the suggestions of the auditor regarding improvements in internal control. A scrutiny of cash discounts allowed to customers disclosed a discount which appeared to be inconsistent with the customer's normal 2% terms. Without asking any questions of the bookkeeper, the auditor went to the customer's file and found a remittance advice. Generally, all remittance advices from customers were destroyed and duplicate deposit tickets were not kept.

Next, the auditor contacted the bank, without the client's knowledge, indicated his suspicions and requested duplicate deposit tickets for certain days on which cash discounts appeared to be irregular. While all this was going on, the embezzler complained to the auditor about the lack of internal control but added, "Of course, no cash is handled." To paraphrase an old saying, "The stolen hat burns on the thief's head." After having proved that the amount actually received from the customer was understated, with the proceeds of the understatement being credited to a war bond deduction account in favor of the embezzler, the client was phoned (he was away in Florida on vacation, as all good clients should be during the auditor's busy season) and he didn't think it important enough to come home immediately.

However, after thinking it over, he agreed that the auditor should con-

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tact his attorney, present the evidence to the attorney, and let the attorney determine the course of action. The attorney confronted "Poker-Playing Pete" in the offices of the client and attempted to gain his confidence, assuring him that he wanted to help Pete by knowing the extent of what had been done. Actually, it is common knowledge that an embezzler will only admit to that which he thinks is known to the discoverer. In this instance, the auditors participated in the search for assets of the embezzler, as well as a detailed determination of the extent of the loss. In addition to the manipulation of cash discounts, there were other types of irregularities involved. The client recovered \$67,000.00 including a suburban home, stocks and bonds and other assets of the embezzler. The skill with which the embezzler was handled by the attorney contributed in a great measure to the recovery of these assets.

Responsibility to the Public

In addition to the C.P.A.'s responsibility to the management, there also may be responsibilities to "public stockholders"—and possibly to the general public in the event fraud is discovered. Obviously, if the defalcation was of such an extent as to have a material effect on the financial statements, appropriate disclosure would have to be made, and if the extent was not ascertainable, an opinion might have to be denied. The possibility of common law liability to third parties (as discussed in the *Ultramares* case), and statutory liability to third parties (see the Securities Act of 1933 and the Securities Exchange Act of 1934) should always be borne in mind by the auditor. In

this connection, the landmark book published by Saul Levy, under the auspices of the American Institute of C.P.A.'s, entitled *Accountants' Legal Responsibility* is a must reading for every practitioner. In discussing some of the legal responsibilities of public accountants as a result of the enactment of the two basic S.E.C. Acts referred to previously, Mr. Levy states "The rule of the *Ultramares* case has been here enacted and that there would not be liability to third parties for mere negligence where the good faith of the accountant is established."

The practitioner must also be concerned about the professional ethics involved in reporting wrong-doing on the part of the client, of a nature which cannot be corrected or be disclosed in the financial statements or the accountant's report. In John L. Carey's *Professional Ethics of Public Accounting*, it is unequivocally stated that the accountant "should not voluntarily inform even those who may be injured by the client's acts. He must remember that he is engaged because his professional status marks him as one who can be trusted, and he must not violate that trust, though it be reposed in him by a client who proves to be unworthy. He may, and should, get rid of the dishonest client, but he should not break the confidential relationship."

Even under the rules of the Treasury Department, an enrolled agent has performed his duty when he has notified the taxpayer that a violation has been committed. If the client refuses to rectify the situation, the accountant should withdraw from the engagement and in his letter of withdrawal should give reasons for his action. The foregoing is quoted from a summary of opinions expressed by

committees on professional ethics of the American Institute in response to actual inquiries regarding the responsibility of the accountant in tax evasion.

Effect of Fraud Discovery

So much for the public; what possible difference in the auditor's conduct should exist if the fraud is uncovered by audit or discovered independently of a C.P.A.'s audit? Frequently, frauds are discovered by accident rather than by the work of the outside auditor. Irrespective of whether the fraud has been discovered by the independent auditor or otherwise, the strain on the relationships with the client are severe. Obviously, if the certified public accountant discovers the fraud, he has a better opportunity to protect his reputation, to insure a continued professional relationship with the client by extending his work, and to ascertain for himself whether his prior examinations were deficient or should have disclosed the irregularity.

In this connection, the importance of written communications to the client confirming the scope of the engagement and annual letters concerning internal control deficiencies cannot be overemphasized. It has been the practice of some firms to state, in their letters acknowledging auditing engagements, that the purpose of their engagement is *not* to determine fraud, but such irregularities as may come to their attention will, of course, be reported to the client. Further, some firms repeat similar language every single year. Obviously, an auditor who has sent such a letter to his client, and has reported internal control deficiencies which he observed during the course of his limited tests of the client's records,

is in a much better position to safeguard his professional reputation and his relationship with the client than one who has failed to communicate to his client in such a vein. Auditors must make their clients understand the limitations of their work and that the principal function of the independent public accountant in an opinion examination is to do such work as will enable the auditor to express an opinion on the overall fairness of the financial statements.

Obviously, if one bright sunny morning a call is received from a client who advises that a defalcation has been discovered, the auditor's first concern, upon recovering from the shock, must and should be, "Wherein have we failed our clients?" Certainly, if there is any possibility of negligence on the part of the examining accountant, he should review his position with competent legal counsel. The old adage of "He who represents himself has a fool for a client" has been proved over and over again. If there has been clearcut written communication with the client as to the scope and limitations of the engagement, the client may still be lost, but the possibility of more drastic legal action against the examining accountant may be forestalled.

The Position of the New Auditor

Frequently, the discovery of a fraud impels the client, no matter how unjustified his actions may be, to change auditors. The unwary new auditor may gain more than a client, possibly serious headaches or worse, unless he adheres to the following rules of professional conduct and good common sense. First, he should contact the prior auditor. At best, the client may have been guilty of contributory negligence in the face

of limitations on the scope of the engagement and internal control deficiencies repeatedly called to his attention by the former auditor—or at worst may have participated in or condoned fraud. Next, caution should be exercised in commenting on the work of professional colleagues. They may have done excellent work within the scope and limitations of their engagement and still failed to uncover the fraud. The scope of the work to be performed and the fee arrangements should be determined in advance since the detailed investigations involved in fraud examinations

can be very costly and time-consuming.

One recurrent theme is evident from the preceding paragraphs: the importance of better communication with the client as to the extent and limitations of the work of the outside auditor, and the reasons underlying the same. If the client adequately understands these matters, better client relationships will result, and, in the event a fraud is discovered, a sound foundation will have been established which may very well serve to retain existing professional relations.

Firm Needs \$1,250,000 To Replace Lathe

In 1942 Thompson Products bought a lathe. The cost was \$12,000. Under Federal tax laws the cost could be depreciated over a 14-year period. So, several years ago when the lathe had to be replaced, Thompson had \$12,000 set aside plus an additional \$1,000 which was the resale value of the old lathe. However, in 1956 a lathe that would perform the same functions as the old model that had sold for \$12,000 in 1942 was selling for \$35,000 and a new model with attachments to meet the advanced needs of the industry cost \$67,000. So the com-

pany found itself with only \$13,000 to buy a \$67,000 piece of equipment. The additional \$54,000 had to come from profits. But in order to clear \$54,000 Thompson had to make a profit of \$112,000 before taxes, and in order to make that much profit the company had to sell more than \$1,250,000 worth of products to customers. It took a million and a quarter dollars in sales for the company to replace one lathe.

Florida Crown—February, 1961

Gainesville Chamber of Commerce

How the Crime Insurance Function is
Related to the Services of Account-
ants

The Insurance Agent And Fraud

By Clifford R. Hinton, Jr.

In the never-ending war waged against the forces of fraud and dishonesty the businessman's most effective weapon by far *is what he is able to do for himself* in the selection and supervision of personnel and in the physical protection *he* provides for company property. While the burden of the battle falls heaviest upon him, he has in close support the formidable forces of the certified public accountant for preventing, detecting and measuring fraud loss and the powers of the legal profession and law enforcement agencies in the prosecution and punishment of the perpetrators. Finally, there also stands available to the businessman the extensive resources of the insurance industry. The basic support function of insurance is money, and in such sums as will largely make him whole if the insurers have been permitted to do the kind of job they are capable of doing.

Unfortunately there exists in the ranks of these several groups men who believe their profession to the exclusion of one or more of the others can alone successfully win the war against dishonesty: We are all, in a

word, not allies but competitors. Only through the combined efforts of all the forces aligned against fraud, each fully cooperating with the other, can any one group hope to do an effective job.

At the outset it might be well to clarify the objectives of these comments. We hope to give the practicing accountant a sufficient feeling and understanding of the crime insurance function so that he can appreciate its proper role in relation to that of his own profession. These particular comments are confined to crime insurance in the commercial and industrial fields exclusively, thereby eliminating "Personal Lines" insurances and the broad field of surety bonds.

We can now proceed by accepting as fact that until society produces employees who invariably do what they are supposed to do, and nothing else, the services of the bondsmen will be required and business will be brisk. But the application of crime insurance is broader than mere employee dishonesty coverage for reasons which I shall now endeavor to make clear.

Fraud or dishonesty, to exist, must be caused by people. And, when your clients weigh these perils to their business they can divide all people into just two groups: (a) their own employees, and (b) everybody else.

Of these two groups the most hazardous to the businessman by far is the employee group. Who better than they can know the nature and whereabouts of his property and how it is received, protected, distributed and disbursed? Having access to it, if not already in partial or full control, who is in better position to steal it if they are so inclined? Any soundly constructed crime insurance program takes cognizance of this premise and is built upon a foundation of adequate employee dishonesty coverage.

Business victims of fraud or dishonesty may soon discover, however, that they cannot always know if an employee caused their loss, or being convinced he did, cannot prove it to the satisfaction of others. Insurance underwriters, hardly being able to know more about their client's operations than does the client himself (and further lacking such divinely conferred insights and immunities as would permit them to identify and accuse the culprit), offer in remedy various supplemental coverages which can minimize or eliminate many vexatious claim situations caused by persons unknown. Included in this latter classification, for example, is so-called "All Risk" insurance on money or securities, plus various other property coverages, which insure beyond mere loss by theft or fraud.

It so happens that thoroughly detailed, amply qualified analysis of every crime insurance form and endorsement presently available would assume the proportions of a metropolitan telephone book and would be

about as interesting to read. So our analysis must be brief even though brevity compatible with clarity is a rare (and somewhat risky) achievement for an insurance man. If we can remember our analysis makes no pretense of being a Magna Charta of the insurance world, it will serve our purposes well enough.

Property Covered

Normally, this includes property owned by the insured; property of others for which the insured is legally liable; and property of others in their custody whether legally liable or not.

Perils Insurable

Normally, direct loss caused by—

Fraud or dishonesty of employees' "All Risk"—(per form) of money and securities while

—on premises

—with defined messengers

—in recognized places of safe deposit

Robbery (hold up) of property other than money and securities while

—on premises

—with defined messengers

Burglary (visible evidence of forcible entry) of safes or vaults

Forgery of checks

Forgery of securities other than checks

Premises Burglary (visible evidence of forcible entry when closed for business) or "Theft," of material, merchandise, equipment, etc.

Records destruction—named perils or "All Risk" (per form)

—on premises

—in transit

Policy Forms

In the main, the insurable perils enumerated above are covered under policies issued by casualty insurers. However, some of these perils can also be covered by policies issued by fire and marine insurers, particularly respecting risks in transit including the mails.

Coverages can be written to apply "Specifically" (per person, item, location, etc.) "Scheduled" (itemized), "Blanket"; or in combination thereof.

Coverages can be written under separate policies, or combined in "Package" contracts of which there are several forms available for standard risk classifications.

Special package contracts are available to unique risk classifications such as financial institutions, railroads, etc.

With all the coverages, whether written specifically, scheduled, or blanketed, under separate policies, or in packages, there are available by endorsement countless options, the total effect being one of flexibility and permitting the underwriter and the insured mutually to adapt coverage to fit recognized exposures of a given risk. (For this reason, among others, true manuscripts covering new submissions are now virtually extinct.)

Forms designed for use separately covering any one of the insurable perils enumerated generally *exclude* other perils that can be insured by other separate perils policies. For example: the standard "All Risk" coverage on money and securities *excludes* among other things Employee Dishonesty, or loss by Forgery; the standard Merchandise Burglary Form *excludes* employee dishonesty; and so on. It is therefore vitally important when such individual peril policies are employed that they be purchased in such proper combination (and from the same insurer) as to minimize or eliminate insurable gaps in the total coverage purchased.

The prime virtue in the "package" contract is that the margin for such errors has been largely eliminated from them, and these package forms are daily making many of the people buying and selling them far more astute at the task than they really are! Before leaving the subject of policy forms several points are worthy of special mention:

- Limits of insurance are *not cumulative* from term to term.
- Burden of proof of loss is on the insured. It is *never* on the insurer.
- Expense of proof of loss is the insured's except in the rare instances when the form provides claims expense coverage which is usually limited in scope and amount when included.

Two restrictions are normally found in employee dishonesty coverage that commonly cause trouble:

1. The insured automatically becomes a self insurer as to that employee the moment he has knowledge the employee has been dishonest in his employ or elsewhere.
2. Inventory "shortages" are not covered in the absence of *proof* it was caused by an employee. In the absence of *proof* the "shortage" is simply outside the scope of employee dishonesty insurance.

Without doubt this problem has been the source of more anguish in the servicing of this form of insurance than all other problems combined. I here quote the exclusion found in a currently standard Blanket Bond form:

"This Bond does not apply to loss, or to that part of any loss, as the case may be, the proof of which either as to its factual existence or as to its

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amount, is dependent upon an inventory computation or a profit and loss computation; provided, however, that this paragraph shall not apply to loss of money or other property which the Insured can prove, through evidence wholly apart from such computations, is sustained by the Insured through any fraudulent or dishonest act or acts committed by one or more of the Employees."

The language pertaining to this restriction may vary from form to form but the intent is always the same: *no proof—No coverage.*

Controls and Underwriting Requirements

Employee Dishonesty Insurance. There can be no doubt this is a subject of specific interest to the practicing accountant. Underwriting requirements as to controls vary depending upon the nature of the exposure and the attitude of a given insurer to a given class of risk. In many instances these requirements are fairly simple and in others quite detailed with special emphasis placed on certain operations or employee categories. This variation in underwriting policy in many instances can be traced to the specialty a given insurer has made of certain risk classifications, or perhaps is rooted in other expensive underwriting lessons learned insuring given types of operation.

Space does not permit anything but the slightest treatment of the subject, it generally the following requirements are minimal for risk acceptance:

Periodic outside audit (C.P.A. preferred) which may or may not include a physical inventory.

Joint control of securities.

Countersignature of checks issued.

4. Monthly reconciliations of bank statements by personnel other than those normally involved with deposits or withdrawals.
5. In the event of loss history details as to the manner in which the losses were perpetrated and the corrective steps taken in preventing recurrence.

It is the underwriting policy of some insurers to accept or reject a risk as they find it. Others may make detailed recommendations as a condition of risk acceptance. Failure by the insured to exercise a given control rarely constitutes a breach of warranty thereby nullifying coverage.

Undoubtedly an effective accounting control has many good characteristics, but in my opinion two are paramount: duality and timing. By duality we mean that two or more people check an item, transaction or operation as often as feasible. (Although no one has yet conceived an ultimate defense against collusion, the duality characteristic is vital.) The element of timing could mean minutes, days, or months, depending on the situation. Save in those situations where exposures permit a thief in one act to abscond with sizeable amounts of money or property, it must be appreciated that *big losses all start small* or relatively small for the operation involved but are permitted to build by *repetition without detection*, and it is here the timing element as to frequency and surprise is of utmost value.

Controls are desirable because they may make fraud more difficult and thereby reduce the frequency and extent of loss. But, if controls could in themselves prevent loss, most of the men in my field would have had to find other work long ago. It is sad

but true that experience indicates when an employee is determined to steal he can do some damage and too often a great deal of damage. Controls are designed and implemented by fallible men. How often the insurers and the certified public accountant discover too late the vast difference between the way a control has been carefully set up and the way it is actually operated! Beware any man who would put his whole trust in controls!

These remarks should not be construed as an indictment of controls. Controls haven't been tried and found wanting—they haven't been tried at all—to an extent approaching their potential value. The public accounting profession has a challenging opportunity to rectify this deficiency through an ever stronger educational emphasis as they counsel their clientele. And, it would be a boon to all of society, as well as the world of business, if the certified public accountant and the businessmen could together be taught to think fraud, and suspect fraud, far more often than they do.

Common Problems. There is a wise old adage to the effect that "experience may be the best teacher but experience is the teacher of a fool." Too many times I have richly earned the latter appellation by acquiring much of my education in crime insurance the hard way. Fortunately I have never held a monopoly on *all* the ills that beset this field and what follows is therefore, thankfully, a partial list of the problems common to the issuance, purchase and servicing of crime coverages any one or all of which can deprive the insured of maximum benefit of the insurance carried and make loss recovery difficult if not impossible. It is so much

easier to prevent trouble than to cure it. For those readers who enjoy the exhilaration of doing business the hard way I now gratuitously offer a few "failures" any one of which, if diligently applied, can guarantee trouble and dissatisfaction.

Programming and Purchasing

Most troubles start here. The following points are basic and absolutely essential to *poor* programming:

Failure to make a periodic, thorough analysis of *all* exposures to be insured by someone competent in this field of insurance. Failure to do so courts disaster from the beginning (not appreciating the inherent nature of the coverage, applicants sometimes deny full information to the insurance man).

Failure to purchase the crime coverage carried on a given risk from the same insurer. Since the respective coverages *complement* each other at many points, this failure needlessly risks conflict of interest in loss adjustments between two or more carriers.

Failure to carry adequate limits. Determining an adequate limit shouldn't be too difficult in most cases as these are essentially property insurances. As exception, and an old bugaboo, is the case of employee dishonesty coverage. However, we now have in adjunct a valuable tool in the Surety Association of American formula for computing *minimum* limits for Commercial and Industrial risks. Risks in the Financial Institutions category usually have as a guide the regulations and requirements of Supervisory Government Bureaus or Governing bodies.

Failure to afford Blanket Coverage

which is almost always preferable to specific or scheduled coverage.

Ordering, Issuance and Servicing

Failure to name accurately the insured including naming of subsidiaries and affiliated interests, etc.

Failure to effect coverage concurrent with prior expiration dates thereby creating a gap in continuity of coverage.

Failure to amend specific or scheduled coverages as changes occur in applicable exposures.

Failure to retain for permanent safekeeping (where necessary) superseded policies.

Failure to notify insurance advisors when exposures move or are created *outside* territorial limits provided in coverage carried.

Failure of insured to keep verifiable books and records of insured property in such a manner that can permit accurate determination of the amount of loss.

Failure to comply with coinsurance requirements where necessary.

Failure to maintain protective devices or services when warranted in the policy.

Aims

Failure to notify insurer of loss within time provided by policy form.

Failure to file proof of loss within time allowed by insurer.

Failure of insured to cooperate with the insurer—including action taken by insured prejudicial to the insurers' rights under the policy or insurers' subsequent rights to subrogation and salvage.

Failure to notify law enforcement agencies as may be required by policy.

Failure of the insured in cases of Employee Fraud to notify and receive consent of the insurer *prior* to making a settlement with and/or releasing of the principal.

The field of claims, particularly respecting actual or suspected Employee Fraud, can be a true fool's paradise. Experienced as some CPAs are with the problem of Employee Fraud, it must be appreciated that major insurers average upwards of one hundred new claims a day, and this too can make for a formidable amount of experience! Public accountants can render their clients a real service by exercising their influence to encourage clients to establish *early* communication with the claims people and keep the lines of communication *open* until the matter is entirely settled. Little is ever lost by bringing a loss report to the insurer too soon, and their counsel as to how to proceed can be invaluable.

It would be ideal to be able to state the exact course of action insurers invariably take upon notification of loss. If there is an industry-wide procedure exercised at this point in the history of a claim the writer is not aware of it. The actions of the claim man are apt to vary depending upon the potential seriousness of the known *facts*, availability of personnel, company policy and other circumstances. It has been my experience that while many Employee Fraud cases bear an outward sameness, they tend to have or ultimately develop individual characteristics. Perhaps for this reason claims people seem to approach these losses one at a time.

A Final Word About Claims

Remember, burden of proof and expense of proving loss is upon the insured. Basically, proof of loss can be broken down into two parts:

1. *Proof of an act or occurrence* covered by the policy; and,
2. *Proof as to the amount* of loss thereby caused. (Claim men, strong men all, can be reduced to helpless laughter by being asked to accept "projections").

The writer has seen many claims reduced or denied by the insurer (and

properly so) where one or both of the above parts are incomplete or missing in the claim submission. Insurance coverage exists to pay losses. However, prior to effecting coverage, the insured and the insurance man should always be realistic about the possibility of loss of a nature where proof may be difficult, if not impossible, to produce.

But be of good cheer! In recent years policy holders have managed to sustain claims against the various Crime Insurers annually totaling upwards of \$100,000,000.

One Potato at a Time

When Lewis H. Brown, the go-getter president of the great Johns-Manville Corporation, was a schoolboy in Creston, Iowa, his father sent him to the cellar one day to trim a pile of potatoes that had sprouted vigorously. When Lewis saw the dimensions of that mountain of potatoes, each one apparently wearing whiskers, he was appalled.

The first session he spent mostly in calculating how many potatoes there were in the pile, and how many sprouts would have to be rubbed off, and how long the irksome task would keep him away from his playmates.

The next afternoon he again did more worrying than work. It would take him an eternity to finish such a staggering chore. He couldn't muster any heart to tackle in earnest such a hopeless job.

When his father dropped down to see how the work was progressing, he

saw that hardly a start had been made. He wanted to know why. Lewis poured out his tale of woe, explaining his calculations, and that he would never be able to finish the job.

The father wisely refrained from scolding. Instead he picked up a potato, rubbed off the sprouts, and quietly remarked: "Just do one potato at a time, my son, and don't worry about the rest." And he proceeded to trim several more as an example until quite a dent had been made in the mountain of potatoes. Inadvertently, the elder mentioned a circus that was coming soon, with exciting descriptions of the marvelous stunt advertised.

When Lewis was called to his evening meal, he noticed that the pile of trimmed potatoes was even larger than the pile yet to be trimmed. The mountain had been removed.

Forbes Magazine

The Accountant's Relation to the Public Prosecutor After Fraud is Uncovered

Embezzlement, Fraud, and the Accountant

Abbey Blattberg

Accountants often wonder what to do when fraud is uncovered. Should they immediately notify the proper law enforcement agencies? What action should be taken? Without question the first thing to do in such a situation is to notify the client. His opinion is controlling since the accountant is merely the agent who cannot be bound by the principal's instructions.

However, the real dilemma occurs when the client asks for the accountant's advice. Should he advise the client to notify the law enforcement agencies? Will this result in adverse publicity? Should disclosure be made to the guilty party that his crime has been discovered? Will any of these steps prevent tracing the stolen funds or obtaining restitution?

Adverse Publicity

Perhaps it is well to discuss first the worry many clients seem to have about adverse publicity.

Most of the time such anxiety is needless because most defalcations are newsworthy. As with the reporting of most crimes, even murder, if mention at all is made of an em-

bezzlement in the press, the report is generally presented from a factual point of view.

Of course, there are exceptions. Bank defalcations, such as the recent ones in Iowa, are intriguing and have great reader interest because of their wide ramifications and the number of persons involved. From statistics that I have seen, there is an average of a murder a day in Cook County, yet very few of these crimes are considered newsworthy by the press. The average person, even though he reads both a morning and an evening newspaper, is shocked to learn that there are so many murders.

Similarly, not all defalcations are newsworthy. I would almost dare any of your clients to try to get into print with every defalcation you report to the law enforcement agencies.

Besides, people do not necessarily take a dim view of such news. These are things which happen every day. Sometimes we tend to be overly sensitive. From many years of experience I have found that clients too are overly sensitive. Such matters, even if noted in the press, are soon forgotten. Perhaps our clients really have

guilty consciences because they have been sloppy, negligent, or overindulgent in allowing practices to develop which resulted in some employee taking advantage of a situation.

There is no way anyone can assure a client there will be no publicity once the matter is disclosed to law enforcement officials. However, the best way to avoid any publicity is to treat the matter in the regular course of business. The prosecutors' office receives such complaints day in and day out. Countless warrants are sworn out each business day in Cook County. The best way to avoid unfavorable publicity, if possible, is for the client to retain an attorney who is familiar with such matters when contacting the law enforcement officials.

Preparing a Case

Once the shock of disclosure has subsided, the average client wants to know how to get back the monies stolen from him. If he is lucky he can trace the funds; or, he may have his employees under bond; or, he may be able to force the culprit to make restitution. Whatever the situation, it is usually necessary to prove what was stolen, when, how, and by whom.

Whatever the situation may be, there should be an immediate, thorough, and complete investigation of the situation. All records and books should be secured so that they will be available for proof and evidence if necessary. At this stage care must be taken not to tip the fact to the culprit that his employer has discovered the defalcation. In some cases it has been necessary to have duplicates made, such as photostats, etc., of the necessary books and records, replacing the originals so that no sus-

picion would be aroused prematurely in the guilty party.

One case stands out in my mind to illustrate this point. The accountant worked right through a holiday week end so that no unauthorized person would learn of the discovery of the fraud.

In this case the culprit used an eradicator to eliminate certain entries on the books to cover up the monies he had taken. Without this person's knowledge the accountant consulted the prosecuting attorney. These records were then submitted to the crime detection laboratory. Fortunately the type of ink used in keeping the books was sensitive to chemicals applied to the paper. The chemicals restored for a short period the writing which had been eradicated. During the period in which the writing was restored pictures were taken of the entries. As a result the invoices, with their numbers, dates, names and amounts were identified. These subsidiary records and documents were sought out. The customers involved were asked for their checks in payment of these invoices. Lo and behold, some of the checks were found to have been re-endorsed by the culprit and deposited into his own bank account.

Such evidence helped convince the client that there was proof beyond reasonable doubt that an embezzlement had taken place, when, how much, and by whom. When I requested the complainant (the client) to sign a complaint charging the culprit with embezzlement, there was absolutely no hesitation in doing so.

We were then able to arrest the employee on a warrant. All the books, records, documents, and pictures—the temporarily restored books—were at hand. The defendant was qu-

ed at once. It goes without saying he confessed at once. He was called to see that so much was won. The client in this case had a very good recovery because the employee was bonded. In addition, he was able to recover some of the stolen funds as well as property purchased with these funds.

Many points are illustrated by this case. First of all, there was no adverse publicity. The arrest of the defendant was noted in the press, but we can say that no one of the present authors of this article, outside of the parties in the case, paid the least attention. The preparation made in advance of the disclosure to the defendant was ideal. The proper steps were taken, the client had returned to him what he had lost, and the defendant went to the penitentiary.

We have always found such course of action or procedure best because experience has proved that disclosure of the discovery of the fraud to the guilty party started a series of events in which there was no turning back.

Too often there are improper preparations taken by the client, the accountant, and the client's attorney. The worry about adverse publicity of getting restitution causes premature disclosure to the culprit. Because adequate evidence is obtained to prove an embezzlement or other crime the client confronts the guilty employee. He immediately promises to repay all the stolen money. This promise causes relaxation of the preparation of a case against the culprit. Subsequently, under such circumstances the guilty employee consults his attorney who recommends that the

employee back down from the restitution offer. Sometimes the guilty employee manages to lose important records and documents. In such situations the client winds up the loser. The client loses because if he swears out a warrant when there is not sufficient evidence to obtain a conviction, he opens himself to a suit for malicious prosecution. He loses because he no longer has any leverage to force restitution. He loses because the bonding company may not pay when there is inadequate proof of loss.

No one can attempt to set out any hard and fast rules which must invariably be followed. No two cases are ever exactly the same. Each case is like a voyage on an uncharted sea. No one knows in advance what course will be best to follow nor where it will lead.

No one can assure there will be no publicity; no one can guarantee restitution; no one can be certain of a prosecution leading to conviction. Then too, since circumstances in each case vary, no one is certain of the right or correct moment to call in the prosecutor.

Sometimes despite the best efforts of the accountants, the client, and the attorney, there are not sufficient records to obtain a conviction for embezzlement. This situation need not be disastrous.

Embezzlement May Not Be the Only Action

Two cases stand out in my mind at this time to illustrate that legal action may be based on charges other than embezzlement.

In the first case over \$30,000 was missing. The client whose funds were

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missing in this case was a credit union. The accountants and attorneys worked feverishly to nail down the facts, but many records were missing. A cursory examination at the place of business made it evident that an embezzlement had occurred, but proof was lacking. Because of the missing records we were unable to prove how much money the client firm had taken in and disbursed.

We then learned that the culprit had purchased a home and had written checks on the credit union for the down payment. He had misrepresented to the officials who signed the checks some of the facts and thus obtained their signatures by false pretenses. We found these checks. However, they were several years old, and no prosecution could be based on them because the statute of limitations had already run.

The guilty person happened to come into the office of the client while the examination was in progress. By engaging him in conversation we learned to our amazement that he had boxes of records and checks in the trunk of his automobile parked just outside the building. He agreed to return these records, and when they were brought in we found two checks which the defendant had forged. He had used these checks to purchase a Cadillac motor for his new Ford. The defendant had stored these checks in this same auto.

Due to the technicalities of the law setting out the requirements for the various crimes, and due to the technicalities of the law on questions of evidence, there were certain crimes which we were sure had been committed here but which could not be proved. Yet we were able to find evidence of forgery, still another crime, which we could prove and

against which the statute of limitations had not run.

Here, a large company was involved. It did not hesitate to call in the law enforcement agency. It did not worry about bad publicity. The bonding companies involved paid on the claims the client made under the bond. The defendant made restitution in part with the items he had purchased. Then too, there was prosecution resulting in the defendant going to the penitentiary. Due consideration was given him in the penalty assessed for his co-operation.

The other case followed some of the same pattern. Records were missing probably purposely and conveniently so. No embezzlement could be established as a result. But again we were able to prove a charge of forgery. The bonding company made good the loss to the extent of the bond. The defendant too went to the penitentiary.

In each of the above cases a detailed confession was obtained with the available records present. They were all identified by the defendant. Besides, the confession was taken under such circumstances that it could hardly be thrown out of court later. This preparation is the kind all cases should have whenever possible. In fact, certainty of prosecution aids greatly in obtaining restitution more often than not. From every viewpoint co-operation with law enforcement agencies is desirable and serves the best interests of the law, the client, the accountant, and the attorney.

Restitution

Restitution in most cases is the result desired by the client. From our experience the best method of obtaining restitution occurs when secrecy

obtained until evidence sufficient
a conviction is obtained. To do
the client must, with the co-
operation of the accountant and his
counsel, fully prepare the case by
gathering all records and documents.
The prosecutor should be called
to confront the culprit. With a

complete case the prosecutor can in
most cases obtain a confession. Under
such circumstances the client can in-
sist on restitution to the extent that
funds exist, can recover on any bond
that he may have on the employee,
and rid, for a time at least, an em-
bezzler from the business world.

The Golden Rule in Action in Our Profession

We hear much about the Golden Rule—and we *should* hear much because
it is one of our most precious heritages. Its origin, clearly, is divine. It is
so lofty to be a natural impulse.

No human term describes the message of righteous living so fully and so
convincingly. It is the ten commandments all rolled into two vitalizing words.
These words encompass dramatically the practice of all the virtues, the re-
alization of all acts which are not attuned to the Divine Will.

A word picture of a diagram I once saw depicting the "spiritual edifice"
has a strong relation to the "professional edifice" of the CPA, because
in the edifice shines resplendently the holy grail of honor and fruitful-
ness in service, brought there by devotion to the cause and practice of the

GOLDEN RULE

Resting on the firm foundation of
HUMILITY,

The two columns of FAITH and HOPE
rise to support the crowning arch of
CHARITY.

Holding the two huge doors onto the
columns
are hinges representing the four cardinal
virtues:

PRUDENCE
and
JUSTICE

TEMPERANCE
and
FORTITUDE

This great edifice, holding the future of humanity, with a high place for
the accounting profession, beckons to all to enter its portals. Many are
already there as honored guests. For these and the other invitees with
appropriate raiment, the future is bright and promising.
It is good to be able to report that the great majority of certified public
accountants are not strangers to the GOLDEN RULE. I take pride in be-
longing to their great profession.

Louis H. Pilié, CPA
The Texas Certified Public Accountant (July 1961)

Enlightenment on the Role of Common Sense in the Development of the System

Fable of the Roasted Pig

One of the possible renderings of an old story on the origin of roast meat is this:

Once upon a time a forest where some pigs lived caught on fire and all the pigs were roasted. Men, who at that time were in the habit of eating raw meat only, tasted the roasted pigs and found them delicious. From that time on, whenever men wanted roast pork they set a forest on fire—until, of course, they found a new method. And the story I want to tell you is the story of what happened when an attempt was made to modify The System and establish a new one.

I

For a long time things had not been as they should be: often the pigs were burned almost to a crisp, sometimes they were partially raw, and at other times they were so completely damaged that it was hardly possible to make any use of them at all. It was a large scale operation to roast a pig, and everybody was worried because if The System failed very greatly the damages were equally great.

Thousands of people lived on that roast meat, and thousands more were engaged in the task of producing it;

therefore it was quite clear that The System simply must not fail. Yet strangely enough, the more The System was tried on a larger and larger scale the more it proved to be a larger and larger failure.

Due to the many bad points of The System, complaints grew at an increasing rate as The System was expanded to involve more and more people; it was the general desire that The System should be drastically changed. Thus every year there were any number of conventions, congresses, and conferences, and a considerable amount of time and effort was spent in search of a solution. But apparently no way of improving The System was ever found, for next year and the year after and the year after that there were once more conventions and congresses and conferences. And this went on all time.

Those who were experts on the subject put down the failure of The System to a lack of discipline on the part of the pigs, who would not stay where they should in the forests; or to the inconstant nature of fire, which was hard to control; or to the trees, who were too green to burn well; or to the dampness of the earth; or to the official method of setting the w

re; or to the Roast Pork Weather
rice, which did not accurately pre-
the time, place and amount of
; or . . . or . . .

s you see, it was very difficult
ccount for the failure because, to
the truth, The System of roasting
was by far too complex: a great
ecture had been set up, a great
hinery with innumerable varia-
had become institutionalized.

here were men who worked at set-
the woods on fire (firemen). They
ialized in setting different zones
re; some were specialists in firing
northern zones, others the western
s, and so on. Some were special-
in setting fires by night, others
lay (and the latter were divided
morning and evening specialists).
re were also summer and winter
ialists (who had jurisdictional
utes in the spring and autumn).
re were also the wind specialists,
anemotechnicians. There was a
ctor General of Roasting and
Roasted Meals (with three execu-
secretaries often referred to as
; Medium, and Well-Done); a
ctor of Fire Techniques (with
In-Service Advisory Council); a
ctor of Burnable Forestation; a
onal Committee of Professional
ning in Pig-Rearing; an Insti-
for the Higher Study of Cul-
l and Nourishing Technicians
(IHSCNT); and the awesome
SS (Ministry for Elaboration and
emization of Searching)—and
tually the MESS was so big that
e was one Reform Inspector for
y 7,000 pigs.

was this MESS that prompted
many conventions, congresses, and
ferences. But the only result of
e was to make the bureaucratic
SS even greater.

The development and formation of
new forests and jungles had been
planned, and this plan was in full
swing. It was being carried out in
accord with the latest technical in-
formation (e.g., "in chosen regions
where the winds do not blow more
than three hours hand-running,"
"where there will not be much damp-
ness").

There were thousands of men pre-
paring those woods which were soon
to be burned. There were specialists
in Europe and the United States, ar-
ranging for the importation of the
best timber, trees, saplings, and seeds;
studying the methodology of making
more fires burn more intensively; and
picking up operational know-how
(e.g., how to make holes so the pigs
would fall into them).

There were huge plants to keep the
pigs in before the fire broke out in
the forest, and methods were being
tested on how to let the pigs out at
just the right moment. There were
technicians in pig feeding, experts in
building pens, professors in charge of
training experts in pig pen construc-
tion, universities that prepared pro-
fessors to be in charge of training
experts in pig pen construction, re-
search specialists who bequeathed
their discoveries to the universities
that prepared professors to be in
charge of training experts in pig pen
construction, and . . .

The problems were many, and so
were the proffered solutions. Some
conferences suggested setting fires
triangularly, permitting the south
wind to blow for square root of $a-1$;
some conventions suggested releasing
the pigs fifteen minutes before the
heat in the woods reached 47°C ,
plus or minus 2° ; while some con-
gresses thought it was necessary to
construct huge electric fans in order

to orient the fire properly. And, needless to say, few of the experts agreed and each had research data to prove his point.

II

One day a fireman, in Category SW/MD/RS (southwest specialty, daily-morning, licensed for rainy summers), named John Commonsense said that the problem was really very simple and easily solved. He said that in order to solve the problem with ease only four steps need be followed: (1) the chosen pig had to be killed, (2) cleaned, (3) placed in the proper utensil, and (4) placed over the fire so that it would be cooked by the effect of the heat, and not by the effect of the flames.

"People kill the pigs?" exclaimed the Director of Forestation furiously. "People kill? The fire is the one to kill! Us kill? Never!"

The Director General of Roasting himself came to hear of this Commonsense proposal, and sent for him. He asked what Commonsense had to say about the problem, and after hearing the Four Point idea he said:

"What you say is absolutely right—in theory; but it wouldn't work in practice. It's impossible. What would we do with our anemotechnicians, for instance?"

"I don't know," answered John.

"Where would you put our specialized firemen?"

"I don't know."

"Or the specialists in seeds, in timber? And the builders of seven-story pig pens, now equipped with new cleaning machines and automatic scenters?"

"I don't know."

"What will we do with the men who have studied abroad for years? Shall we set them to cleaning such things?"

"I don't know."

"And what is to be done with men specializing in organizing and directing our annual Conferences? The Reform and Improvement of the System? If *your* system solves everything, then what do we do with *them*?"

"I don't know."

"Can't you see that yours is not a solution we need? Don't you think that if everything is as simple as that, then the problem would have been solved long before this by the specialists? Tell me, where are the authorities who support your suggestion? Who are the authors who back what you say? Do you think I tell the engineers in the Anemotechnical Division that it is only a question of using embers without a flame? And what shall be done with the forests that are ready to be burned? The forests of the right kind of timber needed to produce the right kind of fire, trees that have neither fruit nor leaves enough for shade so that they are good only for burning? What shall be done with them? Tell me."

"I don't know."

"What shall be done with the Committee in Charge of Writing Roasting Programs? With the Department in Charge of the Classification and Selection of Pigs? With the Department of Educational Pig Architecture? And the rest of them?"

"I don't know."

This article is a reprint from the November, 1960, *Phi Delta Kappan* Magazine (permission granted). (With apologies to Charles Lamb, who inspired but did not encourage this, and to W. R. Blew, who encouraged publication of this but did not inspire it.)

Tell me, you know the Chief Engineer of Pork Pyrotechnics, Mr. J. C. Unknown, don't you? Isn't he an extraordinary scientific personality?" Yes. He looks like it."

Well, then, do you see that the fact of having such valuable extraordinary engineers in pyrotechnics shows that the present System is good? And just what would I do with such valuable individuals if the system were adopted?" I don't know."

Do you now see the problem in the question? What you must bring, as a solution, is a method on how to make use of our anemotechnicians; how to solve the shortage of western firemen which is our chief difficulty right now; we have plenty of eastern, northern, and southern firemen; how to make pig sties eight stories high, or more, instead of the seven stories we now have. *We have to improve what we have; we cannot change it.* To bring me a plan that will tell me how to do so our scholarship costs in the United States are cheaper; show me how to design the crucial experiment which will yield a solution to the problem of Roast Reform. That is what we need. You are lacking in judgment, Commonsense! Tell me, for example, what would I do with my good friend (and relative), the President of the Committee to

Study the Integral Use of the Remnants of the Ex-Forests?"

"I'm really perplexed," said John.

"Well, now, since you know what the problem is, don't go around telling everybody you can fix everything. Now you realize the problem is serious and complicated; it is not so simple as you had supposed it to be. An outsider says, 'I can fix everything.' But you have to be inside to know the problems and the difficulties. Now just between you and me, I advise you not to mention your idea to anyone—not to anyone, because it might bring about, er, ah, difficulties with your job! Not because of me, you understand! I tell you this for your own good, because I understand your plan; but, you know, you may come across another boss not so capable of understanding as I am. You know what that's like, don't you, eh? . . .

III

Poor John Commonsense didn't utter a word. Without so much as saying goodbye, stupefied with fright and puzzled by the barriers put in front of him, he went away and was never seen again.

It was never known where he went. That is why it is often said that in those tasks of reforming and improving The System, Commonsense is missing.

Revenues and Expenditures of Illinois School Districts

By George C. Brook

The financial operations of school districts in Illinois as elsewhere, are closely regulated by state statutes since they involve the use of public money—taxes—in an important state function—education. These financial controls include (1) setting maximum tax rates; (2) establishment of particular funds (educational, building, etc.); (3) provisions for referendums for tax rate increases; (4) requirement of financial budgets; (5) maintenance of uniform accounts and periodic reports; (6) publication of annual reports in community newspapers; (7) placing responsibility upon the school superintendent for the maintenance of school records and preparation of reports; and (8) the annual submission of school reports and records to audit by Certified Public Accountants. There are many other types of state control over school district revenues and expenditures. The implied objective of these controls is to achieve maximum results from the application of public resources to the instruction of individuals under the various educational

programs carried on by school districts. Still other areas of state control relate to accreditation of schools, certification of teachers, length of school sessions, etc.

The following represents a description of school revenues and expenditures within the legal and school operation framework in which they occur.

Revenue and Non-Revenue Receipts

The three main sources of revenue receipts of a school district are taxes, state aid and miscellaneous income. Examples of non-revenue sources are sales of school bonds and tax anticipation warrants. These latter are identified as non-revenue because upon receipt of such amount liability is created for repayment in the future. In contrast to this, revenues involve only an increase in assets and no corresponding increase in liabilities. Also, the uncommitted balance of each fund remaining at the year before is available for appropriation in the new fiscal year.

al Taxes

ax revenues arise out of local taxes made according to the provisions of the School Code. The school district prepares a budget of its anticipated revenues and expenditures for the fiscal year. Proper allowances are made for resources on hand—the carryover from the previous year—estimated amounts to be received from the State or Federal government and the net estimated amount to be realized from miscellaneous sources. In this way the amounts needed from local taxes can be estimated. The tax rates are then levied by the school board, but the amount of taxes expended by the County Clerk may not exceed the amount arising from application of maximum legal tax rates to the tax base, which is the total assessed valuation of all properties. Separate tax rate maxima are established by law for the Educational Fund, the Building Fund, the Transportation Fund, and others.

Statutory school tax rates:— Prescribed maximum rates are established for each school fund in the School Code but these may be increased by referendum according to legal procedure. There are stated limits to rates obtainable under the referendum procedure.

The statutory tax rates (subject to increase by referendum) for the main funds are as follows:

Educational Fund

1. For districts operating Grades 1-8 or 9-12: \$0.65 per \$100 of assessed valuation
2. for districts operating Grades 1-12: \$1.25 per \$100 of assessed valuation

Building Fund

1. For Grades 1-8 or 9-12:

\$0.1875 per \$100 of assessed valuation

2. For Grades 1-12: \$0.25 per \$100 of assessed valuation

C. Transportation Fund

1. The statutory rate is two cents per \$100 of assessed valuation

Special laws govern school tax rates of cities over 500,000 population, namely Chicago.

The Property Tax System

Real estate and personal property are taxed in Illinois to provide an important part of total tax revenues. Local property tax rates arise from the division of the tax levy by the total assessed valuation of real estate and personal property.

The school tax rate is a bundle of separate rates, one for each of the funds involved such as educational, building, transportation, etc. The total school tax rate is only a part of the total annual property tax rate. Other parts might include city corporate tax, county tax, library tax, sanitary district tax, park district tax, etc. The property taxpayer pays one tax bill. The proceeds are then pro-rated among the taxing bodies such as the school system, the city, the county, the park district, etc.

Taxes are not collected until the year following tax accruals. For instance, 1960 taxes will not be collected until 1961. In view of this situation local governments, including school districts, are forced to borrow upon tax anticipation warrants to finance operations during the period of delay. The amount of borrowing is determined in part upon existing cash balances, amount of working cash funds and the legal borrowing limit of 75% upon the tax levy. Later, when tax collections are made, they

must be used to pay off the tax warrant liability. Tax collections in excess of those required to liquidate tax warrant debts, are available for use by the school district.

Description of County School Tax Levying and Collection Procedure

After the school board has completed its budget estimates and total tax revenues needed are known, it prepares a certificate of tax levy and transmits it to the County Clerk. It may be drawn up as follows:

Certificate of Tax Levy

We hereby certify that we require the sum of dollars, to be levied as a special tax for transportation purposes, and the sum of dollars to be levied as a special tax for educational purposes, and the sum of dollars to be levied as a special tax for building purposes on the equalized assessed value of the taxable property of our district for the year 19

Signed this day of 19

A. B., President

C. D., Clerk (Secretary)

District Number County.

The County Clerk performs a number of services for school districts, including the following:

1. Furnishes a certificate, upon request of the school board of any district, showing the last ascertained assessed valuation of the taxable property of the district.
2. Receives the certificate of tax levy from school boards. These are the basis for computing school tax rates and tax bills based upon individual assessed property valuations. Individual school taxes are entered and combined with other taxes

such as county, park district, and/or city taxes to equal the total tax bill of each person.

3. Prepares tax rolls and distributes them to collectors.
4. Determines the amount of taxes necessary to pay maturing principal and interest on any bonds of the school district and extends this amount on the tax books. This amount is based upon certified copies of bond resolutions filed in his office. Such tax rates are not deducted from the rates extended for educational or building purposes.
5. Prepares and mails to each school treasurer of the county before delivery of the tax rolls a certificate of the amount of his district or districts from the tax extended and placed on the tax rolls.

Services of Collectors

Individual tax bills are distributed to taxpayers and amounts due are collected and credited on the tax rolls. School tax collections are distributed to school treasurers within thirty days after the delinquent date of the tax or installment or as soon after that date as the school treasurer shall present his demand according to the county clerk's certificate showing the tax amount.

If the whole amount of the tax has not been collected the collector provides the school treasurer with a statement of the amount of uncollected taxes.¹

After the tax collection period of the townships, collectors close the tax books and return them along with tax collection reports and undistributed tax collections to the County

¹ In Class II counties (Madison, St. Clair, Cook) township school treasurers serve all of the school districts in the township. In Class I counties a separate school treasurer serves each single school district or a number of school districts but not all the districts in the township.

rk or County Treasurer. There, township books are audited.

State Aid

State aid is available to school districts in variety. The largest amount comes from the State Distributive Fund² according to the formula involved in the guaranteed support dollar per pupil. Other amounts may be received from the General Revenue Fund and as reimbursements for transportation costs, hot lunches, vocational education programs, excess costs in education of handicapped children, driver education, junior college programs, etc. Federal donations of commodities under school lunch program also are distributed from the State.

All state aid disbursements are made by the Department of Public Instruction through the County Superintendent of Schools. The latter distributes state funds in Class II counties³ to the township treasurers on the account of each school district in the township. In Class I counties contributions are made to school treasurers. Except in the case of donated commodities practically all state aid is added to the Educational Fund of each school district.

State aid from the State Distributive Fund:—Under a formula in effect since 1960, the State guarantees that \$252 shall be available for each public elementary and high school child in average daily attendance during a school year. However, the State does not pay the school district \$252 for each child. The actual amount collectible is determined as follows for School District X which is a unit district (grades 1-12).

This fund is built up largely from sales tax collections. Cook, Madison and St. Clair counties.

1. Flat Grant. All school districts that meet educational standards as determined by the State Department of Public Instruction receive \$47 for each elementary child and \$32 for each high school student in average daily attendance (A. D. A.). A.D.A. is computed monthly by determining the total number of pupil days of attendance of resident pupils and dividing by the number of school days per month. The six highest months of A.D.A. are the basis for the school district's annual state claim.

Assume the 1959-60 claim in District X for flat grants was as follows:

Elementary A.D.A.	
	$31,364 \times \$47 = \$1,469,408$
High School A.D.A.	
	$9,297 \times \$32 = 297,504$
Total	$\$1,766,912$

2. Qualifying Tax. Every unit district (a district maintaining grades 1-12), in order to participate in equalization aid, must show a minimum school tax rate of 67 cents per \$100 of assessed valuation in its educational fund levy. This indicates local effort. Elementary school districts (grades below 9) have a qualifying tax rate of 54 cents; also high school districts have a 54 cent qualifying tax rate.

The dollar amount for District X (a unit district) is computed as follows for 1959-60.

$$\frac{\$979,867,768 \text{ (1958 base)}}{\$100}$$

$$\times \$0.67 = \$6,565,114.$$

This amount, \$6,565,114, indicating local effort is added to the flat grant, \$1,766,912, total \$8,332,026 which is then subtracted from the guaranteed support aggregate to determine equalization aid.

3. Guaranteed Support. The state guarantee of \$252 per child is multi-

plied by total A.D.A. (average daily attendance for the claim year to determine the amount guaranteed.)

$$40,561 \text{ (A.D.A.)} \times \$252 = \$10,221,372$$

The state does not pay this amount but uses it as a base in the computation of equalization aid which it pays along with the flat grant.

4. **Equalization Aid.** School District X claimed the difference between \$10,221,372, the guaranteed amount and the sum of flat grant and qualifying tax \$8,332,026 or \$1,889,346.

The summary of amounts receivable from the Distributive or Common School Fund in 1960 is as follows:

Flat Grant (Item 1)	\$1,766,912
Equalization Aid (Item 4)	1,889,346
Total	\$3,656,258

The per pupil support by the State in 1960 for District X is derived by dividing the sum of the flat grant and equalization aid—\$3,656,258 by the A.D.A. total—40,561 to equal \$90.14.

5. **Additional Local Tax.** The chances are that School District X will levy taxes beyond 67 cents per pupil in A.D.A. even after considering such revenue as state aid and miscellaneous income. However, the actual tax rate for the Educational Fund must stay within the maximum statutory limit of \$1.25. The additional amount levied was \$3 million.

6. **Other State Aid.** In addition to the estimated amounts receivable in 1960 from the Distributive Fund estimated reimbursements applicable to School District X are receivable in 1960 from the General Revenue Fund as follows:

A. Handicapped children	\$282,600
B. City Junior College	120,000
C. Transportation	40,000
D. Vocational education	85,000
Total	\$527,000

Thus total state aid would be the sum of the amounts from the Distributive Fund \$3,656,258 and from the General Revenue Fund \$527,000, or \$4,183,258.

Miscellaneous Revenues

Miscellaneous revenues include all other revenues not described as tax revenues or state aid revenues. Such revenues as rentals received, interest, various fees, and tuition illustrate miscellaneous revenues.

Uncommitted balances are those remaining after making full provision for unpaid bills at the end of the fiscal year. Such balances are available for re-appropriation in the next fiscal year.

The chart on the following page shows the revenue components of the Educational Fund for School District X for the fiscal year 1959-60.

Expenditures of School Districts

The expenditures of a school district are in terms of its activities and programs. Other expenditure classifications are involved also: by object of expenditures; and by funds. Each of the four classifications measures expenditures for particular uses. Still another broad classification distinguishes between operating and capital items.

Activity or functional grouping. The main activity of a school district is the instruction of pupils, but there are a number of necessary sub-activities that make possible maximum instruction effectiveness. Such activities are administration, operation of school plant (heating, ventilating, cleaning), maintenance and repair, pupil transportation, attendance, health, etc. The activities list

SCHOOL DISTRICT X

Revenue Components of the Educational Fund for Fiscal Year 1959-60

Millions of
Dollars

Miscellaneous income	\$0.6	} Miscellaneous	16
Unexpended 1959 balance	\$1.0		
Other state aid	\$0.5		14
Equalization Aid	\$1.9	} Revenues from State	12
Flat Grant	\$1.8		
Loss and cost—8%	\$0.8		10
Additional school taxes levied	\$3.0	} Gross Educational Fund Tax Levy	8
Tax levied to qualify for state aid—67¢ per \$100 of assessed valuation	\$6.6		6
			4
			2

as shown following.⁴ Important examples of expenditure objects are shown in parentheses.

1. Administration (Salaries)
2. Instruction (Salaries, textbooks, supplies)
3. Attendance—Health, (Salaries)
4. Pupil transportation (Salaries, other expenses)
5. Operation of plant (Fuel, salaries, supplies, contracted services)
6. Maintenance of plant (Salaries, parts, contracted services)
7. Fixed charges (Pension costs,

rent, insurance, interest)

8. Lunch Program
9. Pupil and Community services (Recreation, civic activities, custodial services, etc.)
10. Capital outlay (Sites, buildings and equipment; rehabilitation)
11. Debt service (Principal, interest, sinking fund).

Most school districts organize their expenditures under such an activity classification. This list agrees substantially with that appearing in Handbook II.⁵

⁴ Illinois Financial Accounting Manual for Local School Districts. Office of the Superintendent of Public Instruction, Circular Series A, Number 8, 1961.

⁵ Financial Accounting for Local and State School Systems, Handbook II. U. S. Office of Education, 1957.

Object grouping:—The functional grouping above, although very useful, does not show total amounts spent for salaries, contracted services, supplies, etc. A cross-classification of expenditures according to object or service acquired reveals this vital data. Such a list might be as follows. Examples of objects are shown in parentheses.

1. Personal services (Teachers; non-teachers; fees, etc.)
2. Contracted services (Communication, transportation, electricity, advertising, printing, garage, etc.)
3. Supplies (School and plant supplies, books, fuel)
4. Equipment (Educational equipment)
5. Debt service (Interest on tax warrants; bonds and interest)
6. Buildings and sites (Buildings, sites, permanent improvements, equipment, repairs and replacements)
7. Fixed charges (Pension costs, rent and insurance)
8. Other purposes (Loss and cost, abatements, deferred collections)

This condensed listing might be suitable for very small school districts but for larger districts it might be expanded greatly under each heading.

School programs:—Where a school district carries on varied educational programs it becomes essential to group all expenditures according to their incidence among these programs. Examples are: kindergarten, elementary schools, high school, junior college, vocational and adult education. Information as to pupils served in each program along with program cost makes it possible to compute per pupil cost. This is apt to vary widely between programs. Such information is useful to school

management and could serve, also, as a basis for fixing tuition charges where necessary or desired.

Fund expenditures:—Another fundamental classification of school expenditures is by funds. Since the tax rates are by funds such as educational, building, transportation, etc. and since the school district budget and accounting system is organized by funds it is essential that actual expenditures be grouped in the same way. The simplest way to obtain this classification is to organize journals and ledgers by funds. Within each classification by activity will be made. Pro-ration sheets, starting with activity amounts (administration, instruction, etc.), can be used to provide school program and object analysis.

Summary

In summary, school district expenditures data can be of maximum usefulness to school management if provision is made for grouping them in the several ways described. First there is the separation of journals and ledgers which furnishes separate fund information. Secondly, within each fund activity groupings are provided by columns in journals, and perhaps ledger account titles also. Thirdly cross-classifications according to school program and according to object can be achieved by the use of pro-ration sheets. These could be prepared in advance and pro-ration could be made after original entry in the journal.

A much fuller treatment of school expenditures is available in the Illinois Financial Accounting Manual for Local School Systems referred to earlier.

Information Returns

The subject of information returns is deeply embedded in the Federal income tax laws, having first appeared in the 1916 Act, as amended in 1917. It should be noted that periodically the Internal Revenue Service includes this subject in its audit program for field agents.

This article is intended to cover some of the more important provisions relating to information returns, Forms 1099 and 1096.

All persons making payments in the course of a trade or business of *statutory amounts*, usually \$600 or more, are required to make an information return on Forms 1099 or 1096 for the calendar year with respect to certain types of payments made by them during such year to another person.—(Reg. Sec. 1.6041-1). Persons making payments can include individuals, trusts, estates, partnerships, associations, or corporations—(IRC Sec. 7701(a)(1)).

Since the term “all persons engaged in a trade or business” includes not only those engaged in business for gain or profit, but also organizations the activities of which are not for the purpose of gain or profit, exempt organizations could be required to file information returns.—(Reg. Sec. 1.6041-1(b) and Rev. Rul. 56-6, 1956-1 CB 560).

However, if the payment is not made “in the course of a trade or

business,” a return should not be filed. Typical examples are:

1. Amounts paid by the proprietor of a business to a physician for medical services rendered by the physician to the proprietor's child.—(Reg. Sec. 1.6041-1(b)).
2. Amounts paid by a housewife for wages to a domestic or household employee, unless the house is used as a tourist home, rooming house, or other business venture.—(Rev. Rul. 56-46, 1956-1 CB 560).

Returns of information are to be rendered on the basis of a calendar year even though the income tax return of the payer is filed on the basis of a fiscal year.—(Reg. Sec. 1.6041-1(a)(1) and Instructions to Form 1096).

When Reportable

Returns of information are to be prepared on the cash basis even though the payer files income tax returns on the accrual basis.—(Reg. Sec. 1.6041-1; O.D. 428, 2 CB 249; Richard F. Burgess, 3 BTA 1134.) However, payer should report, in addition to amounts actually paid, amounts credited or set apart to the recipient without restriction (constructive receipt basis).—(Reg. Sec. 1.6041-1(f); OD 428, 2 CB 249; Special Ruling, September 22, 1941).

At times an agent receives a cash deposit from a tenant under a lease which provides that if all the terms of the lease are carried out that the deposit shall be applied on the rent for the last part of the lease. Here the agent of the owner of the property should report the lease deposits on information returns for the years in which such deposits represent rent.—(IT 1291, I-1 CB 324).

Who Must File

Corporations which are affiliated will not be permitted to file a consolidated return of information. Each corporation must file a separate return of information.—(O.D. 469, 2 CB 249). Where two corporations were merged during the year, information returns showing payments made by both corporations should be filed by the continuing corporation.—(I.T. 1313, I-1 CB 324). Where there is no interruption to a business upon incorporation of a partnership during a calendar year, only one information return covering such calendar year is required to be filed.—(O.D. 788, 4 CB 347). A single return of information should be filed by the executor of an estate for the calendar year, reporting all payments made by the decedent prior to his death, and those made by his executor subsequent thereto.—(I.T. 1631, II-1 CB 182).

When and How to File

Form 1096, duly executed, must be used to summarize and transmit Forms 1099 and 1099L to the appropriate Service Center Director, and must be filed on or before February 28 following the close of the calendar year for which applicable.—(Instructions to Form 1096). Quarterly re-

turns on Form 1099 may be filed, although not required; if quarterly returns are filed, the procedures outlined in Rev. Proc. 57-40, 1957-2 CB 1118 should be followed.—(T.I.R. No. 24, October 24, 1956).

Employees' Trusts

Trustees of stock bonus, pension and profit sharing trusts, exempt or non-exempt, are required to file information returns with respect to amounts distributed or made available to a beneficiary to the extent such amounts are includible in the gross income of such beneficiary when the amounts so includible are \$600 or more in any calendar year.—(Reg. Sec. 1.6041-2(b); Internal Revenue Service Release No. IR-095, January 31, 1955).

Insurance premiums which under regulations relating to Section 402 of the Code are income to the employee for the year in which the insurance purchased are considered to be compensation and must be reported on Form 1099.—(Instruction Sheet Form 1096). If an exempt trust purchases retirement income, endowment or other contracts providing life insurance protection payable on the death of the employee, the portion of the premiums paid for life insurance protection from either the contributions of the employer or earnings of the trust will constitute income to the employee for the year or years in which the contributions or earnings are applied to the purchase of such life insurance.—(Reg. Sec. 1.402(a)(1)(a)(3)). The life insurance proceeds received by the beneficiary, however, would be exempt under Section 101(a) of the Code. In this connection, death benefits payable by a trust, instead of through an insur-

life policy, are not taxable to the employee at the time of the employer's contribution and at death are not excludable as life insurance. However, amounts paid at death are excludable under the provisions of Section 101 of the Code up to the amount of \$5,000—(Reg. Section 1.402(a)-1(a)(3)(iii)).

If pension or annuity payments or other benefits are paid or made available to the employee or his beneficiaries, such amounts are taxable in accordance with the rules set forth in Section 402(a) of the Code and the regulations thereunder.

Exclusions from Form 1099

Payments which in the hands of the recipient do not represent income are exempt from income taxation and are not required to be reported. Accordingly, an employer is not required to report amounts representing compensation for personal injuries.—(O.D. 858, 4 CB 349). Where payments are made by a child-placing agency to foster parents solely for the purpose of reimbursing them for expenses incurred in taking care of children placed in their homes, and such payments are not in excess of the expenses incurred, neither the expenditures nor the reimbursements need be reflected in the foster parents' Federal income tax returns. In addition, the child-placing agencies are not required to file information returns with respect to such maintenance payments.—(I.T. 4068, 1952-2 CB 7). Payments representing earned income for services rendered outside of the United States made to a citizen of the United States need not be reported where it is reasonable

to believe that such amounts will be excluded from gross income.—(Reg. Sec. 1.6041-3(f); I.T. 2286, V-1 CB 52). Advances, reimbursements, or charges for traveling and other business expenses of an employee are not required to be reported where the employee must account and does so account to his employer for such expenses.—(Reg. Sec. 1.6041-3(i)).

Excluded from the requirements of reporting on Forms 1099 and 1096 are certain payments which are required to be reported on other forms, including the following:

1. Salaries and profits paid or distributed by a partnership to the individual partners, reportable on Form 1065.—(Reg. Sec. 1.6041-3(g); Mim. 2921, I-1 CB 220).
2. Distributions to beneficiaries of a trust or of an estate, reportable on Form 1041.—(Reg. Sec. 1.6041-1(a)(2); Mim. 2921, I-1 CB 220).
3. Undistributed capital gains of regulated investment companies reportable on Form 2439.—(Instructions to Form 1096).

Also specifically excluded under the provisions of Reg. Sec. 1.6041-3 are the following types of payments:

1. Payments of any type made to corporations, other than patronage dividends, rebates or refunds.
2. Payments by a broker to his customer.
3. Payments of bills for merchandise, telegrams, telephone, and similar charges.
4. Payments of rent made to real estate agents.
5. Payments of commissions to general agents by fire insurance com-

VINCENT J. ROMBS, partner with Miller, Mandell & Company, Chicago, prepared the comments for this issue.

panies or other companies insuring property.

6. Payments made to employees for services performed in Puerto Rico.
7. Payments to informers made by the United States and various governmental bodies.

Payments, not exceeding the statutory amount in the aggregate, during a calendar year to any one payee are obviously excluded.

Type and Amounts of Payments to be Reported

Interest

In general, interest payments made in the course of a trade or business, aggregating \$600 or more are required to be reported.—(Reg. Sec. 1.6041-1(a)(1)(ii)). While the Internal Revenue Code provides that every corporation making payments of interest, regardless of amounts, shall, when required by regulations of the Secretary or his delegate, make a return (IRC Sec. 6041(c)), it appears that the regulations have never implemented this provision to require reporting for interest payments under \$600.

As a matter of fact, the regulations specify that certain interest payments regardless of amount need not be reported on Form 1099. For example, payments of interest required to be reported on Forms 1042, 1042S, 1000, 1001 (including all special variations thereof), payments of interest on corporate bonds, and payments of interest on obligations of the United States, a State, Territory, or political subdivision thereof, or agency or instrumentality thereof need not be reported on Form 1099.—(Reg. Sec. 1.6041-3(a), (k) and (l)). However, ownership certificates, on Form 1000,

are required to be filed in connection with payments of any amount of interest by corporations with respect to bonds, mortgages, or deeds of trust issued prior to January 1, 1934, and containing a tax-free covenant, when payable to citizens and residents of the United States.—(Reg. Sec. 1.1461-1) Ownership certificates are required to be filed with respect to interest received by certain non-resident aliens, foreign partnerships and foreign corporations.

Annual withholding returns, on Form 1042 or 1042S, are required to be filed as specified in Chapter I.R.C. by withholding agents with respect to tax withheld on non-resident aliens, foreign corporations and tax-free covenant bonds.—(Reg. Sec. 1.1461-2).

A building and loan association must file information returns with respect to interest payments of statutory amounts.—(I.T. 2727, XII-2 C 55).

Salaries, Wages and Other Compensation

Salaries, wages and other forms of compensation for personal services to an employee totaling \$600 or more must be reported, to the extent not reported on Form W-2 for the employee or on Form 1042 for the non-resident alien employee.—(Reg. Sec. 1.6041-3(a)(i) and Instructions on Form 1096). Specifically excluded, of course, are payments of income required to be reported on Forms W-2 or 1042.—(Reg. Sec. 1.6041-3(a)). Where the aggregate compensation to an employee is \$600 or more and a portion thereof is required to be reported on Form W-2, the remainder must be reported on Form 1099, regardless of amount. For example, a payment of \$700 was made to

employee and \$400 thereof represents wages subject to withholding and the remaining \$300 represents compensation not subject to withholding, the \$400 must be reported on Form W-2 and the \$300 must be reported on Form 1099.—(Reg. Sec. 1.6041-2(c)).

The term "wages," for purposes of a withholding tax and reporting on Form W-2, means all remuneration for services performed by an employee for his employer unless specifically excepted, and in general, includes salaries, fees, bonuses, commissions on sales and retired pay, whether paid in cash or in property. If services are paid for in a medium other than cash, the fair market value of the thing taken in payment is the amount to be included as wages.—(Reg. Sec. 31.3401(a)-1(a)). Also subject to withholding are Christmas and merchandise certificates given to employees.—(Special Ruling, March 1957). However, the value of turkeys, hams or other merchandise of minimal value distributed to employees at Christmas or on other holidays to promote good will is not subject to withholding.—(Revenue Ruling 59-58, 1959-1 CB 17).

Ordinarily, facilities or privileges such as, entertainment, medical services, and courtesy discounts on purchases) furnished to employees are not considered wages subject to withholding if they are of relatively small value and are furnished by employer to promote the health, goodwill, contentment, or efficiency of his employees.—(Reg. Sec. 31.3401(a)-1(b)(10)). Also, certain noncash payments to retail commission salesmen are not subject to withholding at the election of the employer. An employer who makes an occasional non-cash award to his retail commission

salesmen, such as a merchandise prize for outstanding sales, may elect to withhold or not to withhold on the fair market value of the award, but in any event, the fair market value of such remuneration must be included in the total wages reported on Form W-2.—(Reg. Sec. 31.3402(j) and Revenue Ruling 57-18, 1957-1 CB 354).

The value of any meals or lodging furnished to an employee by his employer is not subject to withholding if the value of the meals or lodging is excludable from the gross income of the employee under Section 119.—(Reg. Sec. 31.3401(a)-1(b)(9)). The regulation cited above infers that if the value of the meals or lodging is not excludable from the gross income of the employee, it is subject to withholding and reportable on Form W-2. The Instructions on Form 1096, however, appear to be inconsistent with the inference in the above regulation in stating: "Compensation for personal services to be reported on Form 1099 (other than wages reported on Form W-2) includes not only wages and salaries in the ordinary meaning of the terms but also other items such as (a) the value of living quarters or meals furnished to an employee, which is not excluded from income under Section 119."

Amounts paid specifically, either as advances or reimbursements, for traveling or other bona fide ordinary and necessary business expenses of the employer incurred or reasonably expected to be incurred are not wages and are not subject to withholding. However, such expenses must be identified either by making a separate payment or by specifically indicating the separate amounts where both are combined in a single payment.—(Reg. Sec. 31.3401(a)-1(b)(2)). Where the

employee is not required to submit an itemized account showing that such traveling or other expense allowances were ordinary and necessary expenses in the employer's business, a Form 1099 should be prepared.—(Instructions on Form 1096). Where the employee is required to account, within the meaning of Section 1.162-17(b)(4), and does so account to his employer for such expenses, no return of information is required.—(Reg. Sec. 1.6041-3(i)).

No withholding is required for amounts paid (other than as salaries) to or on behalf of an employee or his beneficiary under a trust exempt under Section 401(a) or from such a trust to an employee or his beneficiary.—(Reg. Sec. 31.3401(a)(12)-1). However, insurance premiums which under regulations relating to Section 402 of the Code are income to the employee for the year in which the insurance is purchased are considered compensation and must be reported on Form 1099.—(Instructions on Form 1096).

Fees, Commissions, Etc. Paid to Independent Contractors

Generally, physicians, lawyers, dentists, veterinarians, contractors, subcontractors, public stenographers, auctioneers and others who follow an independent trade, business, or profession, in which they offer their services to the public, are not employees; hence, fees paid to such parties are not subject to withholding.—(Reg. Sec. 31.3401(c)-1(c)). Fees for professional services paid to attorneys, physicians, and members of other professions are required to be reported in returns of information if such fees exceed the statutory amount and if paid by persons engaged in a

trade or business and paid in the course of such trade or business.—(Reg. Sec. 1.6041-1(d)(2)).

Since payments made to a "person" are covered under Section 1.6041-1(a) of Regulations and since the definition of "person" in Section 7701(a)(1), I.R.C. includes a partnership, information returns should be filed not only for fees paid to individuals, but also for fees paid to professional partnerships.

Rents and Royalties

A tenant paying rent in the course of his trade or business, other than to a corporation or to a real estate agent, must file an information return if the payments for the year amount to \$600 or more.—(Reg. Sec. 1.6041-1(a)(1)(ii); 1.6041-3(c) and (e)). However, a real estate agent must report the gross rentals (without deduction of commissions, fees or expenses retained) collected on behalf of a property owner, other than a corporation, where gross rental amount to \$600 or more.—(Rev. Rul. 54-571, 1954-2 CB 44).

Returns of information must be filed by individuals, partnerships and corporations engaged in development of oil-producing properties in connection with royalties, rental bonuses, etc. paid to fee owners or in connection with royalties, commissions, bonuses, etc. paid to lease brokers and others, where the annual amount is \$600 or more. Collecting agents (banks, trust companies, etc.) for the fee owners receiving such income are the source of information and must file the return.—(MIR 3772, VIII-2 CB 139).

Dividends

Every domestic corporation and resident foreign corporation must

ke a report on Form 1099 for payments of dividends of more than \$10 each shareholder who is an individual citizen or resident of the United States, a resident fiduciary or resident partnership, any member of which is a citizen or resident.—(Reg. Sec. 1.6042-1(a)(1)). Special provisions apply to national farm organizations, savings and loan associations, etc.—(Reg. Sec. 1.6042-1)(2) and (3)).

Penalties

Unless reasonable cause can be shown for the delinquency, a person failing to file a statement of payment and another person required under Sec-

tions 6041, 6042(1), 6044 and 6051 (c) on the date prescribed therefor (including extensions of time granted) must pay, upon the Commissioner's notice and demand \$1 for each such statement not filed, but not exceeding \$1,000 for all such failures during any calendar year.—(Reg. Sec. 301.6652-1(a)).

A willful failure to file an information return on Form 1096 may invoke the criminal penalties set forth in Section 7203 of the Internal Revenue Code. Upon conviction, a person who willfully fails to file an information return shall be fined not more than \$10,000, or imprisoned not more than 1 year, or both, together with the costs of prosecution.

American Institute of Certified Public Accountants 1961 Annual Meeting — Chicago, Oct. 29–Nov. 1

A panel discussion on "Cooperation Between Lawyers and CPAs" will be one of the highlights of the technical sessions at the AICPA 1961 Annual Meeting to be held in Chicago four days commencing Sunday, October 29th.

Participants will include Erwin N. Griswold, Dean of the Law School at Harvard University, Attorney Ralph M. Andrews, and CPAs Thomas D. Flynn and J. S. Seidman, Past President.

Another subject which promises to attract much attention is "What's Ahead in Federal Income Taxation" to be discussed by Congressman Eugene J. Keogh (Dem. N.Y.), Assistant Secretary of the Treasury Stanley Surrey, Mortimer M. Caplin, Commissioner of Internal Revenue, and others. Other technical sessions will be devoted to the outlook for the local practitioner, progress in accounting research, professional development,

and the broadening concept of the auditor's responsibility.

At the Monday luncheon for members and their wives, David E. Bell, Director of the Bureau of the Budget will discuss the vital question, how must we pay for a strong United States? On Tuesday, Charles H. Percy, Chairman of Bell & Howell Company, will address the members at their luncheon in the Palmer House. The installation of officers will occur at the luncheon on Wednesday.

A sparkling assortment of technical sessions, the outstanding luncheon speakers, the compact housing arrangements in a single hotel, a ladies program that will be a "conversation piece" for weeks to come . . . together with Chicago's attractions as the nation's leading convention city, all combine to promise an enjoyable experience for both the members and their wives who attend.

Conducted by the Committee on Local Practitioners of the Illinois Society of Certified Public Accountants

Ideas for Accountants

ELIMINATION OF PENNIES

Our firm has found that the elimination of pennies from financial statements has made the financial statements more presentable and easier to read. In addition, this has cut down on statement preparation time, typing and proofreading time.

REPETITIVE USE OF DUMMY STATEMENTS

To save the time of staff men in preparing financial statements, our typists make up dummy statements on work paper with the headings and account titles inserted but with dates and amounts omitted. By typing the dummy operating statements on 12 or 13 column paper, and by leaving blank columns for future year increases and decreases, we are able to use the same dummies for several successive statements without the necessity of re-writing prior year amounts and percentages each year. Since we prefer to have the current year figures on the left hand side (i.e. immediately to the right of the account titles), we start using the dummies from the right hand columns and move to the left each year. This set up has the additional advantage that the typist working from the completed dummy does not have to look past intervening prior year figures to reach the figures to be typed on the current statements.

We use a similar procedure for comparative schedules to be inserted in the text of long-form reports and for supporting schedules to income tax returns.

SPECIAL REFERENCE FILES

Whenever we type a letter which may be of reference value on related matters for other clients, we prepare an extra copy for a special reference file. For example, we have special reference files for Tax Research, Accounting Systems, and Internal Control. These files serve both as a source of ideas as well as models for later letters.

We also use extra copies of letters as follow-up memoranda when a reply is required.

S WE GO TO PRESS

CPA ANNUAL MEETING

From October 29 through November 1 the American Institute of CPAs will hold its annual meeting in Chicago, with the technical activities being centered at the Palmer House and McCormick Place, Chicago's new lake-front exposition hall. Advance notices (see p. 43) regarding the program indicate that the technical sessions will be stimulating and the social activities enjoyable. For those readers who have never participated in an annual meeting of the Institute (or of our Society, for that matter) we would strongly urge you to be inquisitive enough to see what goes on. By so doing you may come to appreciate that there is more to the accounting profession than your firm and its problems, that there are some accomplished, personable accountants outside your firm, and that you have been missing a passing opportunity each year to become a greater part of the profession.

NEW AICPA ORIENTATION TESTS

New forms of the Orientation Test and the Level II Achievement Test will soon be introduced in the Institute's professional accounting testing program. Local and regional firms willing to use these tests by September will help establish norms for staff accountants may obtain them at half price (\$5.00 for the two sets, including scoring). Reports of the results in terms of new norms will be available in September. The Strong Vocational Interest Blank is also offered at \$2.00, for appraisal of interest. Please write the Director of Education of the Institute if you are interested, indicating how many of your staff will participate.

JULY ISSUE OF THE JOURNAL OF TAXATION

The July issue of The Journal of Taxation contains three articles which appear to be of particular interest to accountants. Briefly these articles cover the following areas:

1. New inventory procedures in IRS. Nicholas T. DeLeolos of Arthur Andersen & Co. analyzes the new IRS position on inventories. His conclusion is that consistency is the key to successful dealing with the IRS.
2. Bar Association attacks employment of lawyers by CPAs. This may be the beginning of a new period of tension between lawyers and accountants in tax practice. The text of the ABA Ethics Committee's opinion is printed in full, together with explanatory comments.
3. More on deductibility of Travel and Entertainment. Commissioner of Internal Revenue Caplin has recently prepared a major report on the current attitude on travel and entertainment expenses. An extensive summary and quotes from this report is presented.

Illinois Society of Certified Public Accountants

59th Annual Meeting

JUNE 1962						
S	M	T	W	T	F	S
					1	2
3	4	5	6	7	8	9
10	11	12	13	14	15	16
17	18	19	20	21	22	23
24	25	26	27	28	29	30

SHERATON CHICAGO

WE'LL SEE YOU IN '62

CLASSIFIED ADVERTISING

THE ILLINOIS CERTIFIED PUBLIC ACCOUNTANT accepts classified advertising at the following rates:

20 cents per word, minimum of \$3 per ad. Box number counts as two words. Advance payment required.

A box number, if desired, will be charged for as two words.

The closing date will be the 10th of February, May, August, and November. Address all replies to the office of the Illinois Society of Certified Public Accountants, 208 South La Salle Street, Chicago 4, Illinois, to the box number given in the ad.

CLASSIFIED ADVERTISING

CPA in late 20's with small practice seeks association with over-burdened or retiring practitioner. Box 41.

"When it comes to inventory Guessing is Not Good Enough!"

. . . . Says UNCLE SAM

AS PER ARTICLE
NO. TIR 317
(MAY 5, 1961)

If you've been accustomed to playing guessing games
with your inventory . . . **DON'T! IT'S NOT LEGAL!**

**SOMEONE MUST TAKE YOUR STORE'S
INVENTORY! IF YOU CAN'T—THEN CALL MANGINI!**

THE MANGINI INVENTORY METHOD

is a professional, highly-developed system for taking
retail inventories without the usual confusion and dis-
ruption of regular store routine.

MANGINI inventory teams are trained to render all
types of department breakdowns, and to recognize
merchandise as to manufacturer's code, size, discount
bracket, net cost, price changes and deleted items.

In addition, a MANGINI inventory supervisor not only
guides the inventory-taking procedure, but also makes
confidential recommendations to the store owner for
eliminating future errors in pricing and clerical code-
costing, as well as discussing various store conditions,
merchandise turn-over ratios, etc.

In terms of quality . . . you can't buy a better inven-
tory service than the one MANGINI & ASSOCIATES
has been developing, refining and providing these past
20 years.

In terms of cost . . . MANGINI service is priced
amazingly low. Get in touch with us today! We'll be
glad to discuss it!

Send for your FREE Inventory Brochure

It's packed with valuable
inventory tips and is yours
FREE without any obliga-
tion whatsoever!

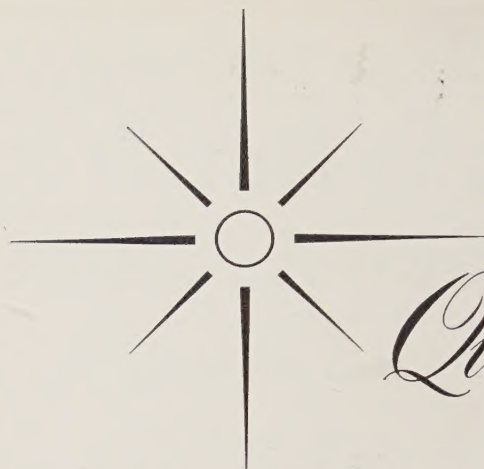
MANGINI & ASSOCIATES, Inc.

Over 20 Years of Inventory Service

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